



Annual Report 2014

175 years of thinking about the future



175 years of thinking about the future

Since its earliest days almost 175 years ago, Australian Unity has had large ambitions on behalf of its members and has contributed in major ways to the development of the nation. Australian Unity aspires to make significant contributions into the future.

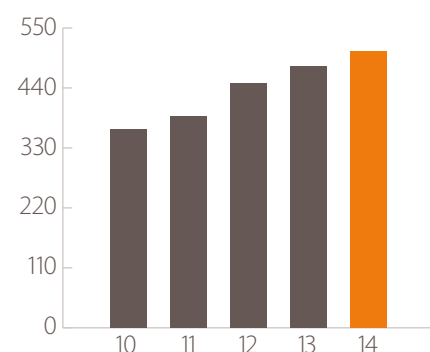
The landmark Rathdowne Place development in Melbourne's Carlton (featured on the cover) is the latest example of this commitment.

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2014 Annual Highlights

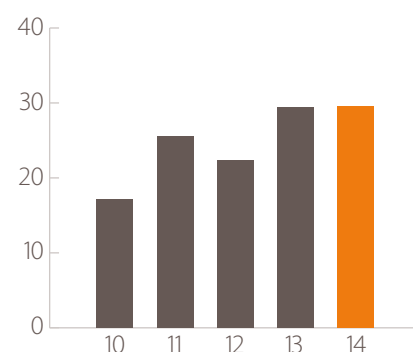
\$508m



Members' funds (\$million)*

2013	\$479
2012	\$449
2011	\$388
2010	\$364

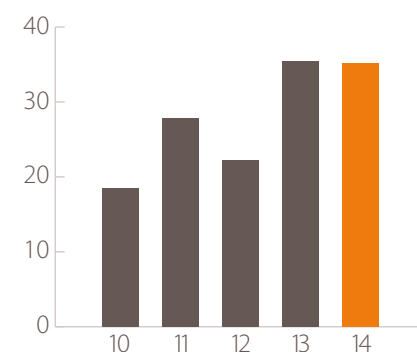
\$29.6m



Profit after tax (\$million)

2013	\$29.4
2012	\$22.3
2011	\$25.6
2010	\$17.1

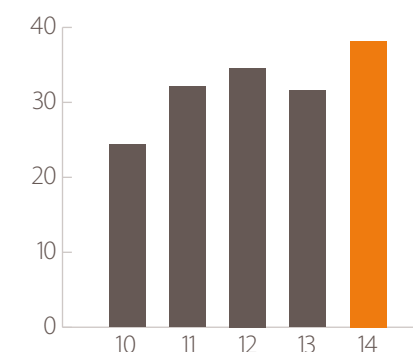
\$35.1m



Profit before tax (\$million)

2013	\$35.4
2012	\$22.2
2011	\$27.8
2010	\$18.5

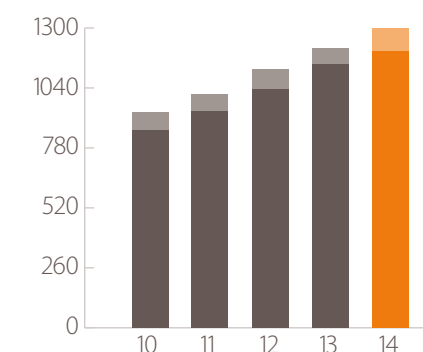
\$38.2m



Operating earnings (\$million)[‡]

2013	\$31.6
2012	\$34.6
2011	\$32.1
2010	\$24.4

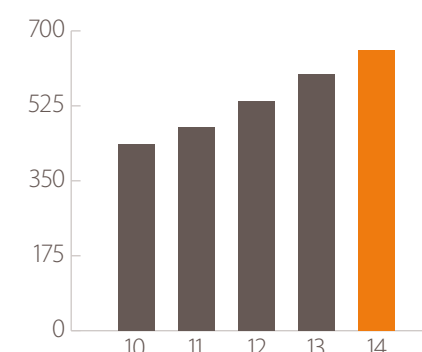
\$1.30b



Revenues (\$billion)[†]

2013	\$1.21
2012	\$1.12
2011	\$1.01
2010	\$0.93

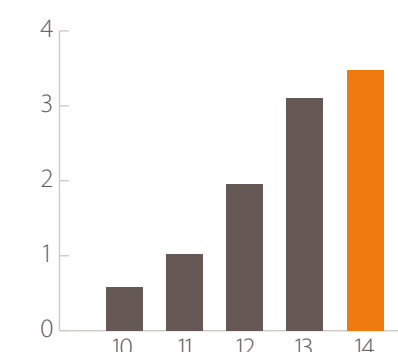
\$655m



Health claims paid (\$million)

2013	\$599
2012	\$535
2011	\$474
2010	\$435

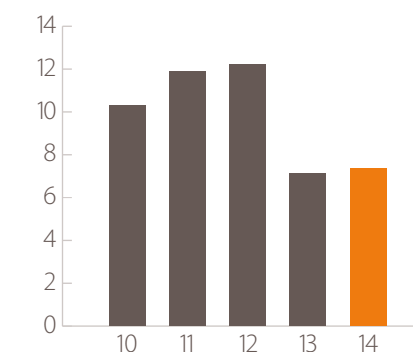
\$3.48b



Funds under advice (\$billion)[#]

2013	\$3.10
2012	\$1.96
2011	\$1.02
2010	\$0.58

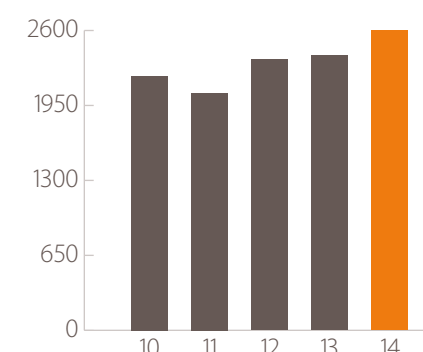
\$7.36b



Funds under management (\$billion)*

2013	\$7.13
2012	\$12.2
2011	\$11.9
2010	\$10.3

2,599



Retirement units and aged care beds^Δ

2013	2,382
2012	2,350
2011	2,056
2010	2,206

* 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.

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

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

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

500

jobs created during the Waurin Ponds Shopping Centre expansion in Geelong, Victoria

46,000

patients have now been enrolled in or completed a Remedy Healthcare program

2 successive years

Big Sky Building Society was awarded 'Best Cash Management Account' in the Smart Investor Blue Ribbon Awards

\$447m

being invested in Retirement Living development projects

Chairman's report

As Australian Unity celebrates 175 years, it is worth pausing and reflecting upon where we have come from, where we stand today and where we see ourselves heading for the future.

Australian Unity grew out of the friendly society and lodge movement in the 1800s. In that era mutual organisations were founded in response to the lack of supply of a number of services (for example, health) and social support (for example, pensions) by governments of the day. Our earliest roots date back to 1840 when Manchester Unity lodges were established in Victoria and South Australia. Many other lodges and friendly societies were formed during the 19th century. The most significant to our group was the Australian Natives' Association, which sought to lend its voice to the task of building a nation—from the establishment of Federation to issues such as water management, healthcare and public education. In addition to Manchester Unity and the Australian Natives' Association many other lodges and friendly societies have merged to form the group known today as Australian Unity, including Grand United, Lifeplan Australia, and Big Sky Credit Union (now Building Society). Each of these societies were themselves amalgamations of a number of friendly societies and each brought to the Group their own long heritage serving their communities.

As we stand today Australian Unity is a large and robust group with operations that span healthcare, retirement living, aged care and financial services. We are a mutual company that runs commercial businesses. This business model allows us to offer services and value for our members and customers beyond the scope of an entity that is run solely for the profit of shareholders. In addition we are able to reinvest our surpluses in further developing our products, people, processes and public advocacy to the benefit of our members, customers and the general community.

This has been a year of growth and opportunity for the company. We were able to significantly progress our plans for some of our most ambitious projects to date, and we reported strong operating earnings growth, together with a stable profit result of \$29.6 million. The trend for better business balance across the group also continued. Our business operations outside of health insurance, which is our oldest business area, in aggregate grew strongly during the year, reflecting decisions made over recent years to positively invest in the broader portfolio. This year we were pleased to open our flagship Rathdowne Place aged care facility in the inner-Melbourne suburb of Carlton, and progressed plans to increase our provision of home care services for older Australians through acquisitions of KNS Essential Care and the INS Group, both in New South Wales. Our Personal Financial Services business also continued its strong expansion, adding 14 new practices across most mainland states. Meanwhile, the health insurance business also invested in its future, launching a new product suite that allows greater customer flexibility while continuing to respond to the challenges of recent legislative changes affecting the industry.

Although we are pleased to have made this progress we, like many businesses and members of the community, remain frustrated by ineffective government at both the legislative and bureaucratic levels. Over recent years we have been pondering as to why this is so. Yes, the global economic crisis that commenced in the last decade has put strains on sovereign economies—but the crisis was an outcome not the cause. It would appear that over the past few decades our governmental and administrative bodies in Australia, and most of the democratic world, have drifted from a balance of policy formation, policy implementation and politics to having an unhealthy focus on political “gaming” to the detriment of

the purpose of serving the communities that elect and pay for the country's governance. As a result, a significant number of the big issues facing us as communities and a nation go with no, or limited, debate and community input, often becoming subject to expedient “back room” political deals.

Over the coming years we will be seeking to catalyse community discussion on what can be done to improve the efficiency and effectiveness of our governments and bureaucracies with a concurrent strengthening of real democracy and of the focus put on resolving the important issues we face in both the short and longer term. In Australia we have a lot of good and dedicated people working in the areas of government and the bureaucracy. We the public need to give them clear guidance as to what we expect in terms of the major policy issues and the trade-offs, quality and cost of implementation. As with Federation, when past generations set our country on the course for a major step forward in governance and taking our place in the world, we are confident that, with engaging debate and process, Australia's current generations can help the country “reset” itself to continue flourishing.

As for Australian Unity, our forward focus is to build a company that helps millions of Australians to enjoy wellbeing in healthcare, wealth-care, retirement living and aged care. To do this we will continue to experiment, innovate and advocate for change that enables us to deliver improvements in the quality and value of our offerings. We will continue to invest in our people and processes with the objective of maintaining an engaged, energised, enabled, diverse and committed team with the appropriate technological support to prosper in a rapidly changing environment.

On behalf of the board, our members and customers I would like to thank our management team and staff for their dedication, efforts and outcomes achieved over the past year. I also thank my colleagues on the board of directors for their dedication and long hours of hard work.



We recently celebrated the retirement of Ian Ferres AM in July after 15 years of service to the board and company. Mr Ferres' career spanned four decades of experience as an actuary, investment manager, company director and active community supporter. During his tenure on the Australian Unity board Mr Ferres served as chairman of the Investment Committee and between 2002 and 2004 accepted the Board's request to take on the role of Group Managing Director. Thank you, Ian.

The board continues to act on its medium-term succession and renewal plan. The extent and complexity of the company's operations requires highly experienced and committed directors who have a strong ability to contribute to the strategic challenges and opportunities facing the company. During the year we welcomed Melinda Cilento to the board. An economist and former deputy CEO of the Business Council of Australia, Ms Cilento has had extensive experience in public policy development and analysis. Ms Cilento also brings experience with the Department of Treasury and the International Monetary Fund to the company. She is a director of Woodside Petroleum and is co-chair of Reconciliation Australia.

In summary, at Australian Unity we are ambitious not just for ourselves and our business growth, but our members and customers, the broader community and Australia as a whole. We will continue to do what we can to develop and prosecute new ways to enable millions of Australians to enjoy wellbeing.

Glenn Barnes
Chairman

Group Managing Director's report



I am pleased to report on a year of overall sound financial performance and on valuable strategic development of the company's activities. As the Chairman has touched on, this progress in the affairs of the company has occurred in what has remained a patchy economic environment, a fluid regulatory framework and a policy and political context of significant uncertainty.

Group revenues for the year increased 7.2 percent to \$1.3 billion. This rise included increased revenues from all our business operations. Pleasingly, the rise also incorporated an increase of some 18.6 percent in the revenues of our business operations outside of private health insurance—marking a further positive step in balancing the financial contributions across the portfolio of businesses.

Operating earnings for the year increased strongly—up 21 percent to \$38.2 million (FY13: \$31.6 million). This result was achieved despite lower year-on-year performance within our healthcare segment, due to adverse claims experience for our corporate health fund.

Investment income, which in the prior year included some significant non-recurring items, was significantly lower year-on-year, at \$17.8 million (FY13: \$27.5 million).

Profit after tax for the company was in line with the prior year at \$29.6 million (FY13: \$29.4 million). Given the context, the financial performance of the company can be characterised as sound.

On many other dimensions the company's operations also performed strongly during the period.

The significant retirement community property development activities that we have been managing over a number of years all made good progress during the year with excellent support and interest from prospective residents and their families.

Notable here was the completion of Rathdowne Place, the aged care facility, which is the first stage of our planned \$180 million development of a Carlton retirement community

in Melbourne. This significant facility, which will be home to 160 residents when fully occupied, will also become a hub for service provision to both its own residents and to the surrounding community providing hydrotherapy, physiotherapy, seniors gym, respite care, adult day care and outreach in-home care.

Some \$126 million in new retirement community facilities were completed during the year with some \$447 million in the development pipeline.

The provision of community care services into the home are an important and growing area of activity for the company. Through a combination of organic growth and acquisition this area almost doubled its revenues to \$9.5 million and increased its staff to some 250.

Overall, the Retirement Living business improved its financial contribution (adjusted Earnings Before Interest, Tax, Depreciation and Amortisation—EBITDA) by 69 percent, to \$21.3 million (FY13: \$12.6 million).

Our Healthcare business proved to be resilient to economic and regulatory challenges during the year. Adjusted EBITDA decreased 8.9 percent to \$43.6 million (FY13: \$47.8).

The financial performance of the corporate health insurance fund, GU Health, was the predominant factor influencing this outcome. After years of outperformance, the results of GU Health were adversely affected by higher than anticipated claims.

It was pleasing that despite economic and regulatory sideways, both funds increased their total number of policyholders during the year.

Our allied health business, Remedy Healthcare, had another strong year. Remedy continues to be an industry leader in providing evidence-based preventative healthcare and hospital discharge support programs. These programs help patients to stay healthy and to more effectively self-manage emerging or existing conditions.

More than 11,000 patients completed a Remedy program during the year taking the total number of patients who have enrolled in, or completed, one of Remedy's programs past the 46,000 mark.

The funds management sector had a patchy year, which combined strong domestic equity markets with persistent low interest rates and variable international securities markets. In this context the Investments business achieved a creditable result.

Investments' funds under management grew 3.5 percent during the year to \$7.4 billion (2013: to \$7.1 billion). Adjusted EBITDA was \$13.8 million, which was down 10 percent on the previous year.

Highlights for the Investments business included the performances of Big Sky Building Society with record lending, the Real Estate business with growth and development in its portfolio of commercial property, and the investment returns generated by the majority of our flagship associated investment managers—particularly Wingate Asset Management.

During the year the business also completed a number of initiatives to simplify its business and capital structures, and improve the efficiency of its operating model. A notable example was the merger of Lifeplan Australia Friendly Society Limited and the previously separate Australian Unity Investment Bonds Limited in July 2013, which has facilitated the delivery of improved services to policyholders and investors.

The Personal Financial Services business increased adjusted EBITDA to \$2.3 million (FY13: \$2.1 million). Funds under advice grew by 12 percent to \$3.5 billion (2013: \$3.1 billion), supporting an 18 percent increase in total segment revenue to \$39.8 million (2013: \$33.7 million).

The continued growth in the business was pleasing considering the uncertainty created by—and costs incurred in complying with—a range of regulatory reforms, particularly the Future of Financial Advice (FoFA) changes.

The number of adviser practices and the number of accounting firms in the business' referral partner program both increased during the year.

The ability of the business to attract new adviser practices is a marker of its growing position and reputation. The business remains well placed to take advantage of opportunities arising from the consolidation of the industry that is occurring, in part, because smaller advisory groups are finding it difficult to adapt to the new regulatory environment.

Looking ahead, the prospects for the company's operations are encouraging when considering the environment of community needs and the development of the businesses over the past year. I make this comment notwithstanding the less than ideal governmental context that exists and upon which the Chairman has remarked. Consistent with our past practice, we will continue to advance reasoned, independent and practical submissions for policy development in areas of our understanding and operation, particularly relating to social infrastructure.

The people at Australian Unity are highly engaged in the work and development of the company. I would like to thank the executive team and all my staff colleagues for their contributions to its life and achievements over the period.

Rohan Mead
Group Managing Director & CEO

Governance chart

Australian Unity Limited Board of Directors

							
Glenn Barnes Chairman B Ag Sc (Melb), CPM, FAMI, FAIM, FAICD, SF Fin, FRSA	Rohan Mead Group Managing Director & CEO, AMP (Harvard)	Melinda Cilent BA, BEc (Hons), MEc	Eve Crestani Dip Law (BAB), FAICD	Stephen Maitland OAM, RFD BEc, MBus, LLM, FCPA, FAICD, FCIS, FAIM, SF Fin	Peter Promnitz BSc (Hons), AIAA, FAICD	Warren Stretton FAICD, FCPA, FCIS, FGIA, FTI, FAMI CPM	Greg Willcock BComm, FCPA, GAICD, MAIM, FFin

Group Managing Director & CEO

Board Committees

Audit and Compliance Committee
Chairman: Stephen Maitland





Human Resources, Remuneration and Nominations Committee
Chairman: Eve Crestani

Investments Committee
Chairman: Peter Promnitz

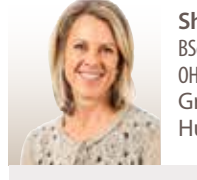





Risk Committee
Chairman: Eve Crestani

Australian Unity Group Executives

Revenue Units

	David Bryant FFin, FAIM, FAICD Chief Executive Officer, Investments and Chief Investment Officer		Amanda Hagan BSc (BIT), SIA, GAICD Chief Executive Officer, Healthcare
Investments		Healthcare	
	Steve Davis CFP, GAICD Chief Executive Officer, Personal Financial Services		Derek McMillan BSc (Hons), Dip Ed Chief Executive Officer, Retirement Living
Personal Financial Services		Retirement Living	

Support Units

	Sharon Beaumont BSc (Physiotherapy), Grad Dip OHS, MBA, GAICD Group Executive, Human Resources		Kimina Lyall BA (Journ), GAICD Group Executive, Corporate Development		Verran Fehlberg BEc (Acc), LLB General Counsel and Company Secretary
Human Resources		Corporate Development		Group Governance	
	Kevin McCoy BComm, HDip Acc, CA, PMP, GAICD Chief Financial Officer		Anthony Connon BA (Oxon), FCA, FAICD Strategic Adviser to the Group Managing Director		Tahir Tanveer M InfoTech, BA Econ, GAICD Group Executive, Business Technology
Finance and Strategy				Business Technology	

Board of directors at 27 August 2014. Full biographies of all directors are on pages 46-47.



Strategic overview



The Australian Unity portfolio

We seek to enable millions to enjoy wellbeing, in its broadest sense. Our strategy for achieving this is to continue to build an interconnected portfolio of businesses that respond to community needs. We aim to engage millions of Australians and assist them to be proactive about their wellbeing—their physical, social and financial quality of life. We aim to influence public policy in positive and constructive ways. We will continue to build and deliver sought-after products and services that are relevant to our customers, while building a financially strong company with a balanced approach to risk.

As part of this overall approach, we also aim to play a part in addressing the “social infrastructure challenge” facing the community. This challenge arises from the intertwined issues of demography and ageing, marked increases in chronic disease and insufficient retirement savings.

Australia's social infrastructure challenge

- ▶ Ageing demographic
- ▶ Insufficient retirement savings
- ▶ Increase in chronic disease
- ▶ Growing demand for health and aged care services and facilities
- ▶ Regulatory complexity affecting investment in these areas and confounding individuals in addressing their needs

Australian Unity's areas of relevant experience


- ▶ Funds management
- ▶ Development and property asset management
- ▶ Personal finance, retirement savings and intergenerational wealth management
- ▶ Healthcare funding and purchasing
- ▶ Retirement community operations
- ▶ Care provision
- ▶ Chronic disease management and evidence-based preventative health

What is ahead?

Increasingly, Australians will demand high quality, trusted products and services that support their ability to take charge of their wellbeing. Meanwhile, demographic and connected fiscal pressures will continue to strain taxpayer-funded services, and increase the need for self-reliance.

We see these circumstances as providing important opportunities for companies that are focused on responding to customer-directed needs in relevant areas. For 175 years, Australian Unity has been thinking about the future—this has required inventiveness, adaptability and resilience. We will build on this heritage in the face of the significant community challenges that we see, with a determination to earn trust from our customers and communities. We are confident that we can play an important part in enabling Australians to enjoy wellbeing.





Australian Unity's ambition



Rohan Mead
Group Managing Director

Enabling millions to enjoy wellbeing

Business leadership

<h4>Healthcare</h4>  <p>Amanda Hagan</p> <p>Healthcare</p> <p>Empowering millions to improve their health</p>	<h4>Retirement Living</h4>  <p>Derek McMillan</p> <p>Retirement Living</p> <p>Creating communities that enhance wellbeing</p>	<h4>Investments</h4>  <p>David Bryant</p> <p>Investments</p> <p>Providing financial solutions for investors for each life stage</p>	<h4>Personal Financial Services</h4>  <p>Steve Davis</p> <p>Personal Financial Services</p> <p>Inspiring clients to take charge of their financial wellbeing</p>
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Healthcare



CEO: Amanda Hagan

Empowering millions to improve their health

For more details on Healthcare’s 2014 results, see the Operating and Financial Review on page 39

Australian Unity is one of the nation’s largest health insurance providers with 226,105 policyholders throughout Australia at 30 June 2014

Business areas:

- ▶ Retail health insurance
- ▶ Corporate health insurance (GU Health)
- ▶ Preventative health, chronic disease management and in-home rehabilitation (Remedy Healthcare)
- ▶ Dental clinics

Strategic role in the social infrastructure challenge:

To efficiently purchase healthcare services and deliver healthcare outcomes through business innovation and evidence-based programs.

Portfolio contribution:

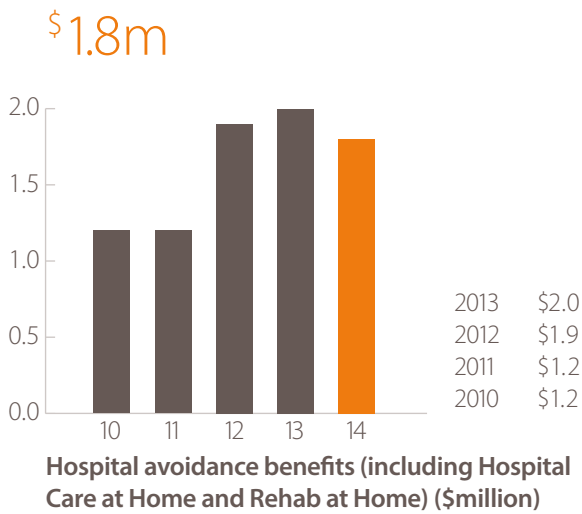
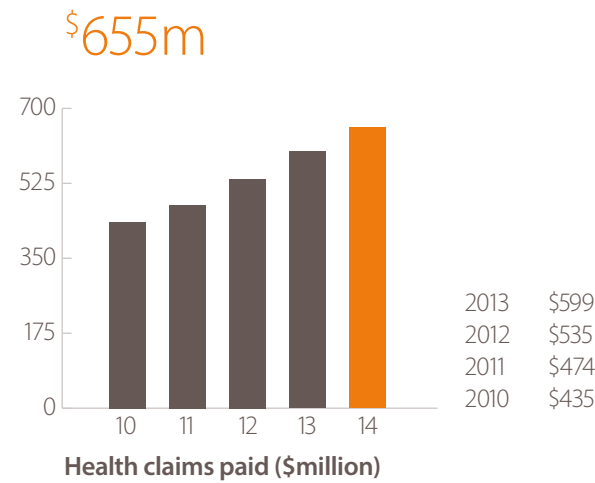
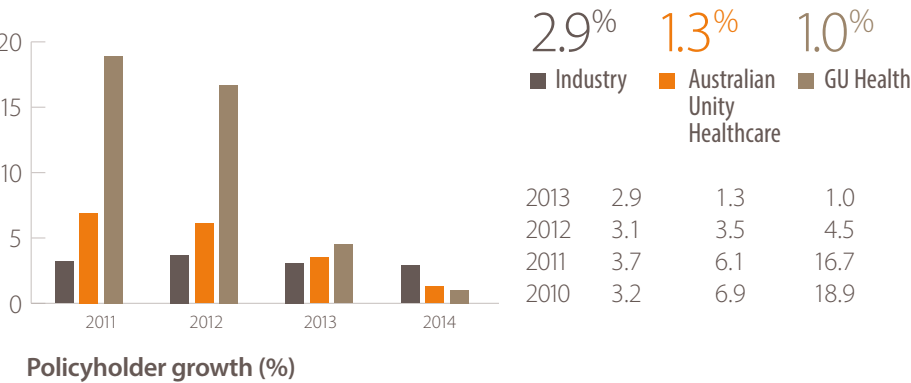
Our oldest business and strongest contributor to financial performance and customer growth. The direct provision of healthcare services is increasingly contributing to segment performance.

In 2014 we achieved:

- ▶ An increase in the number of policyholders in both the retail and the corporate funds despite difficult economic and regulatory conditions.
- ▶ Continued strong demand for Remedy Healthcare’s expertise with the number of patients who have enrolled in or completed one of its programs passing the 46,000 mark.
- ▶ An increase in the number of patients who have visited an Australian Unity dental clinic, with more than 56,000 visits recorded.

In 2014 we were challenged by:

- ▶ Overall profitability was lower compared to last year, impacted by both high claims costs and government regulation.
- ▶ The means testing of the private health insurance rebate and the slowdown in the resources sector had a significant adverse impact on GU Health’s profitability.
- ▶ Customers downgraded their cover to more affordable policies due to reductions in government contributions to health insurance premiums.



In 2015 we plan to:

- ▶ Implement sector leading advances in product development and preventative health programs.
- ▶ Expand Remedy Healthcare programs nationally and open new dental clinics.
- ▶ Launch a new customer communications system based on each customer’s specified preferences.

14

the number of evidence-based preventative health programs currently provided by our Remedy Healthcare business



Retirement Living



CEO: Derek McMillan

Creating communities that enhance wellbeing

Retirement Living provides accommodation, care and support for older Australians

Business areas:

Retirement villages, aged care and home care.

Strategic role in the social infrastructure challenge:

To develop new communities and operating models to better deliver consumer-directed care and enhance wellbeing.

Portfolio contribution:

Long-term operations, revenue streams and development profits, along with a growing care workforce, which directly delivers care to thousands.

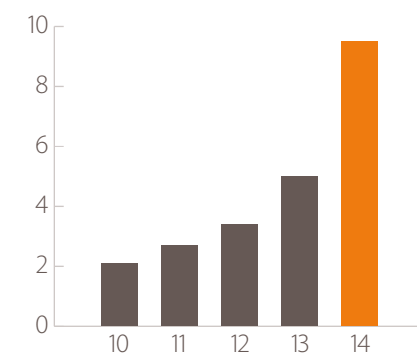
In 2014 we achieved:

- ▶ The completion of Stage 1 of Rathdowne Place—the Aged Care and Wellbeing Centre—in Carlton, Victoria.
- ▶ Almost doubled the revenue of the previous year—and increased the number of staff by more than 50 percent—in the Home Care business.
- ▶ Higher than industry levels of occupancy across the portfolio of properties, with occupancy levels increasing at both retirement villages and aged care facilities.

In 2014 we were challenged by:

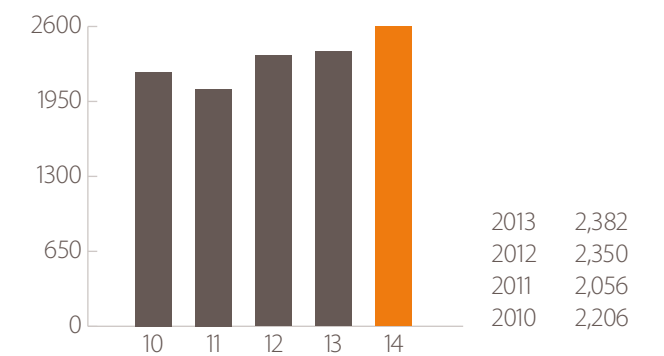
- ▶ The introduction of *The Living Longer Living Better* regulatory reforms. We will monitor the impact of these reforms closely in 2015 to seek to ensure they are both fair to consumers and sustainable over the long term.
- ▶ Rapid growth in the Home Care business presented significant challenges that were addressed with new technology, rostering and client management solutions.

\$9.5m



Home care revenue (\$million)

2,599



Retirement units and aged care beds[†]

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

In 2015 we plan to:

- ▶ Commence Stage 2—90 retirement units—at Rathdowne Place.
- ▶ Commence the partial redevelopment of The Governors Retirement Resort in Port Macquarie.
- ▶ Further expand our home care operations.
- ▶ Open the Peninsula Grange aged care facility in Mornington, Victoria.

More than
50% increase in home care staff

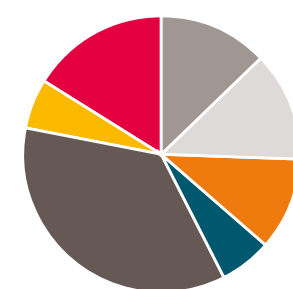
For more details on Retirement Living's 2014 results, see the Operating and Financial Review on page 41

Owns and operates

19

retirement communities, including five aged care facilities, in Victoria and New South Wales

Retirement Living Development Pipeline



Total
\$447m

Rathdowne Place	\$115m
Retirement Village Stage 1	\$59m
Retirement Village Stage 2	\$56m
Lifestyle Manor	\$48m
Lifestyle Manor Anglesea	\$48m
Peninsula Grange	\$186m
Aged Care	\$25m
Retirement Village	\$161m
Sienna Grange	\$28m
Retirement Village	\$28m
Victoria Grange	\$70m
Retirement Village	\$70m



Investments



CEO: David Bryant

Providing financial solutions for investors for each life stage

Australian Unity's Investments business aims to enhance financial wellbeing through the provision of a broad range of products for borrowing and lending, personal investment, superannuation, retirement and life events, to individuals, financial advisers and institutions

Business areas:

Funds management (with key asset management partners); real estate investment; investment bonds (Lifeplan Funds Management); banking (Big Sky Building Society).

Strategic role in the social infrastructure challenge:

To source investors and provide quality financial solutions to enable them to invest in social infrastructure, support the Group to fund its other operations and assist hundreds of thousands of Australians to enhance their financial wellbeing.

Portfolio contribution:

A diverse financial services platform, which has lower capital requirements than other segments while providing solid contributions.

In 2014 we achieved:

- ▶ An increase in the total value of funds under management over last year.
- ▶ Completion of Phase 1 of the \$90 million expansion of Waurin Ponds Shopping Centre in Geelong and the subsequent sale of a 50 percent stake in the property at a capital gain for investors.
- ▶ Strong growth during the year for Big Sky Building Society with growth outperforming all three competitor banking sectors.

In 2014 we were challenged by:

- ▶ The business environment, in both the asset management and banking businesses, was affected by persistent low interest rates, with continuing impacts on business revenues.

BIG SKY
Over **\$700 million** total on balance sheet assets

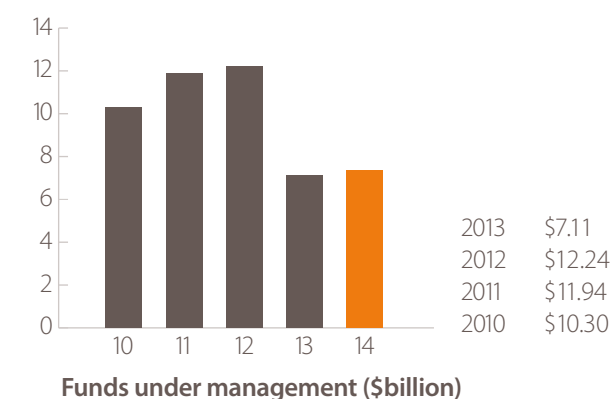
Big Sky Building Society was awarded

'Best Cash Management Account' in the Smart Investor Blue Ribbon Awards in 2013 and again in 2014.

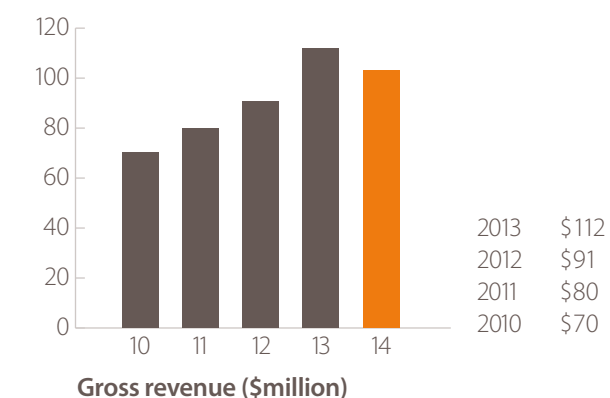
In 2015 we plan to:

- ▶ Capitalise on our developed investment specialist capabilities to significantly grow more recently established funds management businesses.
- ▶ Take a leading industry role in shaping the debate on and identifying further ways to provide opportunities for investors to access social infrastructure assets.
- ▶ Continue to review and refine our operating model to ensure focus on customer service and efficiency.

\$7.36b



\$103m



Joint Venture asset management expertise



Total FUM:
\$1.09 billion



Total FUM:
\$549 million



Total FUM:
\$1.33 billion



Total FUM:
\$46 million



Total FUM:
\$161 million

Personal Financial Services



CEO: Steve Davis

Inspiring clients
to take charge
of their financial
wellbeing

Personal Financial Services provides professional, fee-for-service, strategic advice to help its clients improve their current financial position and ultimately achieve their long term lifestyle goals

Business areas:

Financial advice, finance broking, risk broking.

Strategic role in the social infrastructure challenge:

Provision of trusted advice that enables Australians to build retirement savings.

Portfolio contribution:

One of our fastest growing businesses, Personal Financial Services has the potential to touch hundreds of thousands of customers. The business has recently become profitable after some years of investment by the Group and has an annual compound growth rate in revenue of almost 50 percent over the last five years.

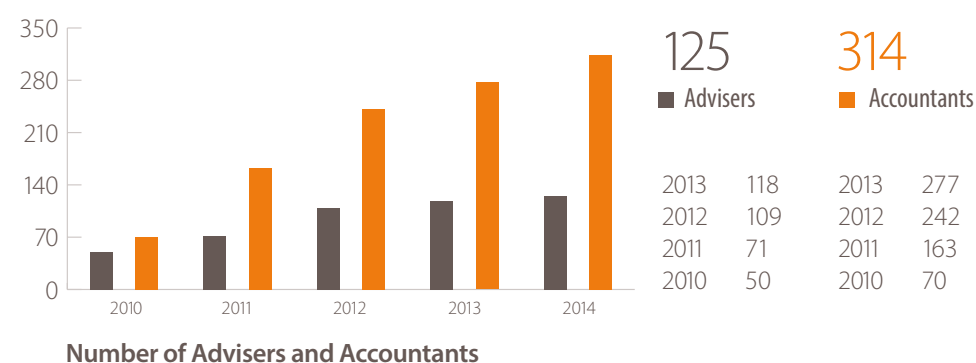
In 2014 we achieved:

- ▶ An 18 percent increase in total segment revenue to almost \$40 million.
- ▶ A 58 percent increase in loans under advice to \$778 million.
- ▶ A 12 percent increase in funds under advice to \$3.48 billion.
- ▶ The addition of 14 new adviser practices across most mainland states.

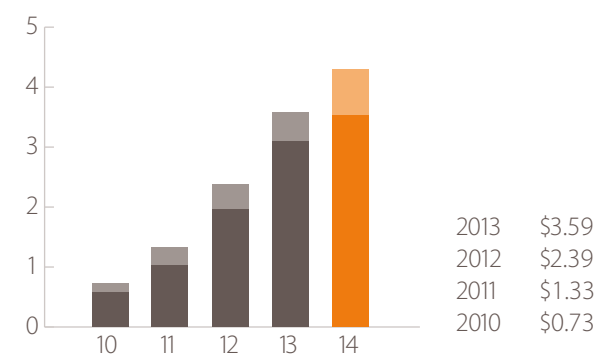
In 2014 we were challenged by:

- ▶ The growth rate in the business was slowed as a result of the ongoing uncertainty relating to regulatory reform—particularly the Future of Financial Advice (FoFA) changes. This uncertainty hindered the entire sector.
- ▶ At the end of the year key pieces of industry reform legislation remained unpassed.

For more details on Personal Financial Services' 2014 results, see the Operating and Financial Review on page 44



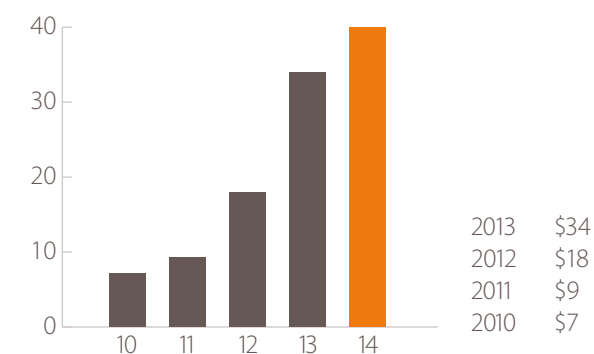
\$4.30b



Funds under advice and loan book combined (2010–2014) (\$billion)*

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

\$40m



Total segment revenue (2010–2014) (\$million)

In 2015 we plan to:

- ▶ Continue to help advisers to grow their businesses while at the same time growing adviser numbers by targeting advisers from other institutions seeking to make a career move to a more advice-based organisation.
- ▶ Expand the accountants channel.
- ▶ Expand the general insurance business service and create a full insurance broking capability.

\$778 million

Loans under advice up from \$492m



Community responsibility

Australian Unity takes the idea of community seriously. The internationally renowned Australian Unity Wellbeing Index consistently shows people are happier when they feel connected to a community. This is why Australian Unity is involved with community organisations and also why it advocates for policy changes that promote social connectedness.

Advocacy

In both public and private settings, Australian Unity's senior executives have called for serious engagement by government and other stakeholders on the social infrastructure challenge facing the nation; driven by an ageing demographic, the rise of chronic disease and insufficient retirement savings. They have spoken about the need for a 'patient-centred' approach to healthcare; driving reforms to secure better quality of care in the health system; a greater focus on preventative health; aged care system reform and measured reform of Australia's financial services sector.

Australian Unity Wellbeing Index

The Australian Unity Wellbeing Index, a joint project between Australian Unity and Deakin University for the last 14 years, examines both personal and national wellbeing. It examines factors such as how financially secure people feel, how they rate their health, how they are feeling in their relationships and how connected they feel to their community. It also looks at satisfaction with government, society, the economy

and the environment. Australian Unity is looking to provide community groups with a method of measuring their collective wellbeing through a Community Wellbeing Index. This service is offered at no cost as part of a commitment to advance wellbeing across the nation.

Australian Unity Foundation

This year, grants of up to \$25,000 were received by The Australian Centre for Social Innovation; Big Brothers Big Sisters Australia; On the Line; Red Dust Role Models; Technical Aid to the Disabled Australia; and the Western Desert Nganampa Walytja Palyantjaku Tjutaku Aboriginal Corporation.

The Foundation also awarded a \$50,000 Heritage Fellowship to Dr Jennifer McGinley, senior lecturer in physiotherapy at the University of Melbourne, to assist her research into maintaining an active life with Parkinson's disease.

Australia Day

Australia Day was an idea championed in the 1880s by the Australian Natives' Association, a founding antecedent of today's organisation. This year's celebrations began with a keynote address by Indigenous leader Warren Mundine at the Great Australia Day breakfast in Melbourne, and continued with a celebration of this year's theme—saying thanks to those in the community who help others. In conjunction with the Australia Day Councils of New South Wales, Queensland and Victoria, 'Thank you Australia' encouraged all Australians to consider who and what they are thankful for.

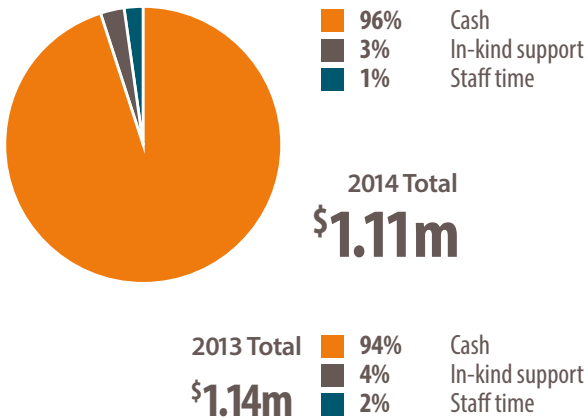
Performing Arts, Not-for-Profit and Staff Partnerships

Australian Unity's long relationship with Bell Shakespeare and the Australian Brandenburg Orchestra continued, with both performing arts organisations bringing their repertoire into Australian Unity retirement villages for older and less mobile residents.

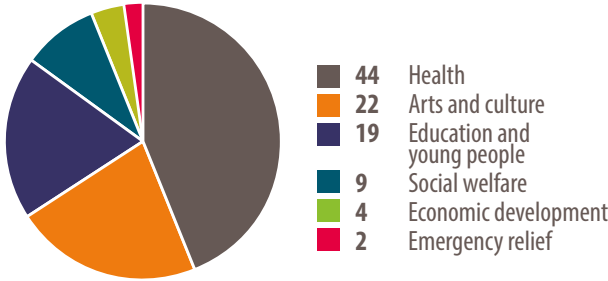
Australian Unity gives employees one day's paid community leave per year to volunteer in community activities, and provides up to ten employees with the opportunity to apply for a week of community leave, offering their professional skills to a not-for-profit organisation. We also encourage staff to donate to charities through a workplace giving program.

Since 2006, the Australian Unity Foundation has provided more than \$1.3 million to support community programs that advance the wellbeing of Australians.

Our community contributions at a glance

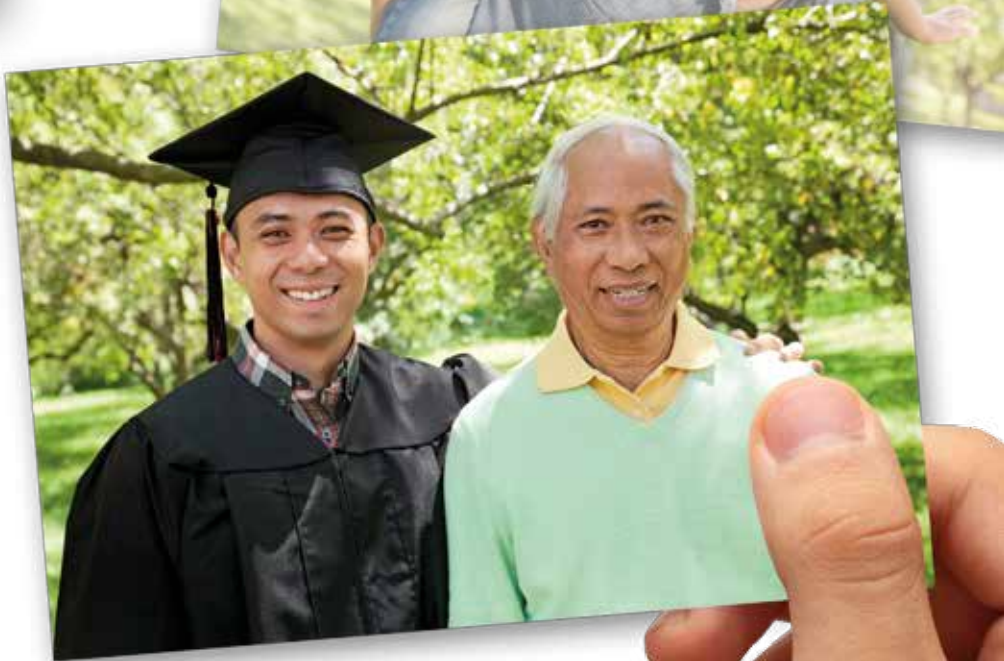


Areas of support 2014 (% of \$)



\$49,874

contributions made by employees to charitable organisations and matched by Australian Unity



People

The commitment and capability of people working at Australian Unity and the constructive workplace culture created continues to be a driving force for the performance of the Group.

The company's employee value proposition strengthened in 2014, playing a vital role in both retaining and attracting new talented people to our workforce. Australian Unity remains committed to continually testing and improving its offering to employees, seeking to sustain a working environment that:

- Engages staff strongly in the culture and values of the company;
- Supports high levels of wellbeing, performance and productivity;
- Provides valuable and relevant professional and personal development opportunities; and
- Is flexible enough to meet the varied needs of a markedly diverse workforce.

Australian Unity has a workforce that reflects the diversity of its clients and the breadth of its business operations. Employees work in fields as varied as accounting, dental, cooking, actuarial, financial markets, nursing, banking and physiotherapy.

Wellbeing

Australian Unity is committed to offering its employees a working environment that has a strong and consistent culture centred on wellbeing. This commitment extends across our operations and is reflected in the processes, strategies and programs we put in place to support employee wellbeing and development. Its success is proven by the consistently high levels of engagement that come out of our employee surveys. Our commitment to employee wellbeing is intrinsically aligned with our commitment to clients and members across our business operations.

Engagement

Survey data for this year's shorter employee engagement 'pulse' survey shows engagement levels of 85 percent and sustainable engagement levels at 80 percent. Both are significantly above our external survey partners' benchmark for Australian companies. Our ambition is to have engagement levels at similar levels to high performing global company benchmarks.

Linking wellbeing and engagement to productivity

Australian Unity employees participated in a program designed to improve wellbeing and engagement and better understand the links between these factors and improved productivity. The program has four parts—health, future security, relationships and achievements. In 2014, a six-month health coaching program was delivered to participating employees by Australian Unity's Remedy Healthcare business. Health risk and workforce factors were measured before and after program delivery, with a free health and wellbeing check conducted by a clinician. The Remedy coaching program delivered tangible health benefits to participants with a reduction in overall health risk factors.

People Development

Australian Unity invested considerable effort in building its workforce capabilities during 2014. We updated the Business School—an internal learning and development resource—and also aligned all the School's programs with external qualifications in management and leadership. We have provided learning and development for more than 520 participants over the past seven years.

Diversity

Australian Unity's approach to workplace diversity encompasses differences in gender, culture, ethnicity and physical ability. The company is within its target range for gender balance of at least 30-40 percent female staff in management positions. We are making good progress in some cohorts but have not yet achieved this target across all management levels.

Australian Unity has more than

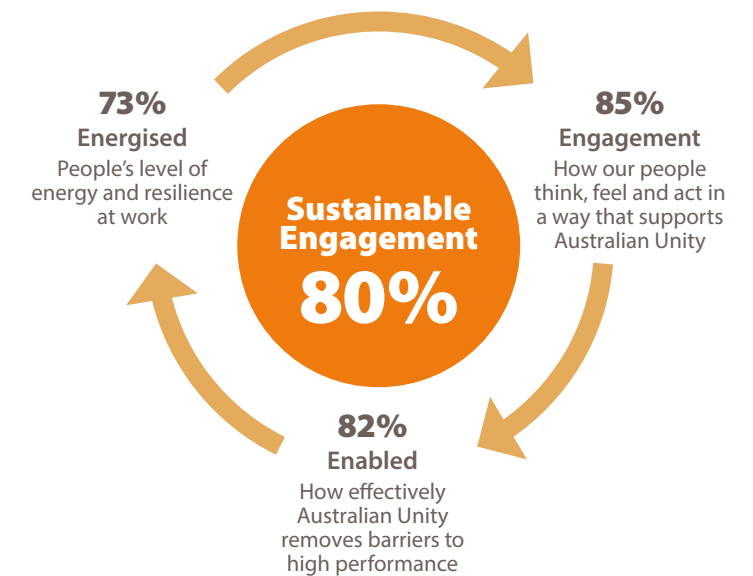
2,000 staff
across Australia

There was a

14% improvement

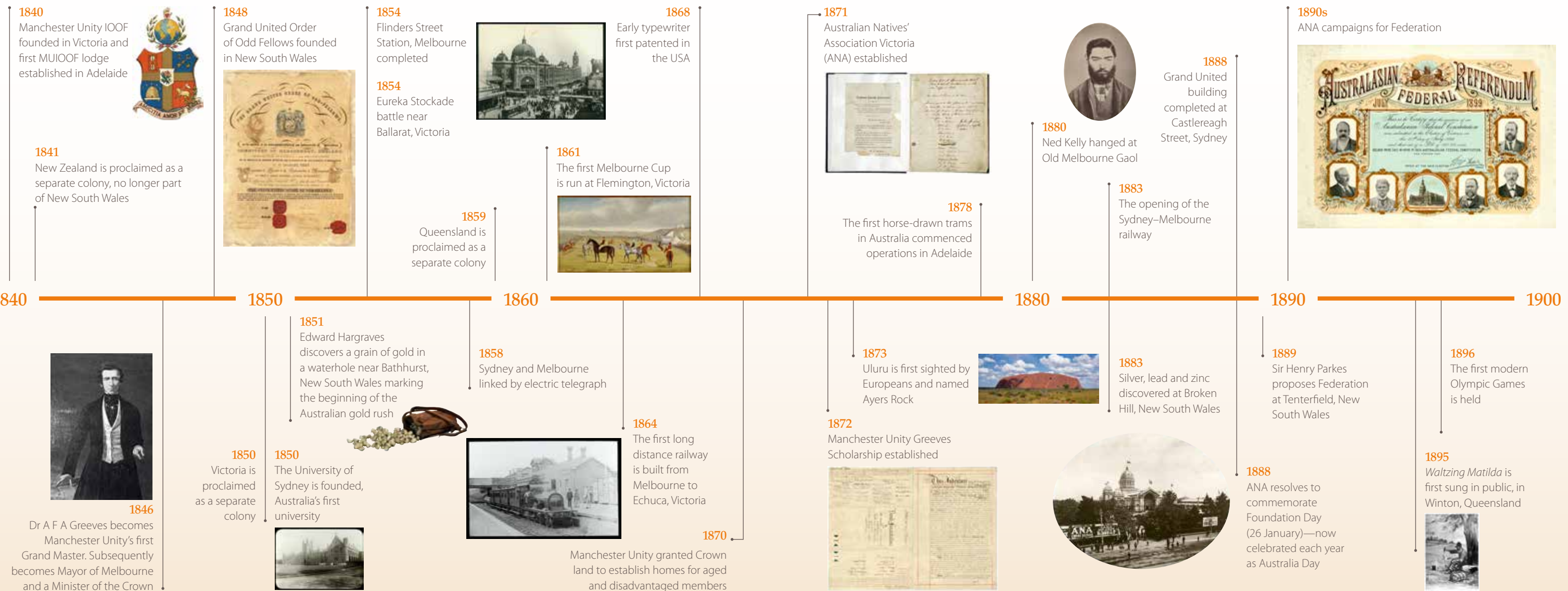
in the risk status for diabetes in employees who participated in the Remedy program compared to 4% in the control group

Australian Unity employee engagement results 2014



Australian Unity's 175 year journey 1840-2015

1840 to 1900 >



Our journey began in 1840 when Manchester Unity IOOF was founded in Victoria and its first lodge was established in Adelaide. The antecedents of the modern Australian Unity were active participants in the movement that brought about the founding of the Australian nation in 1901.

This heritage is both a fitting and historical connection between our antecedents and the Group today, which remains committed to playing a part in the further development of our nation. We retain a keen interest in issues of public affairs, particularly as they affect our members, customers and the broader community.



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

1901-1960 >

1902
Grand United Life Assurance Scheme introduced



1903
ANA member Alfred Deakin becomes Australia's second Prime Minister—serving three terms in office

1908
8 hour work day is established



1914-18
World War I. For the first time Australian soldiers fight under the Australian flag



1915
Australian troops land at Gallipoli



1921
Edith Cowan is the first woman elected into an Australian parliament



1928
The first flying doctor service founded

1927
First parliament of the federal government held in Canberra

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



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

1939
A team of scientists develop penicillin

1939-45
World War II



1948
Grand United Centenary Centre – Homes for the Aged and War Memorial Nursing Home is opened

1956
Melbourne Olympic Games



1956
Television in Australia is launched



1900

1901
Federation creates the nation of Australia



1903
Australian women get the vote



1906
The first surf lifesaving club established at Bondi, New South Wales

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

1910

1915
ANA Roll of Honour for Gallipoli listing those who served



1912
The wattle declared Australia's national flower



1911
The Royal Australian Navy is founded

1920

1926
Manchester Unity First Insurance Company of Victoria established



1923
Station 2SB broadcasts the first Australian radio program

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

1940

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

1937
Grand United opens head office building at 149 Castlereagh Street, Sydney

1932
Sydney Harbour Bridge completed



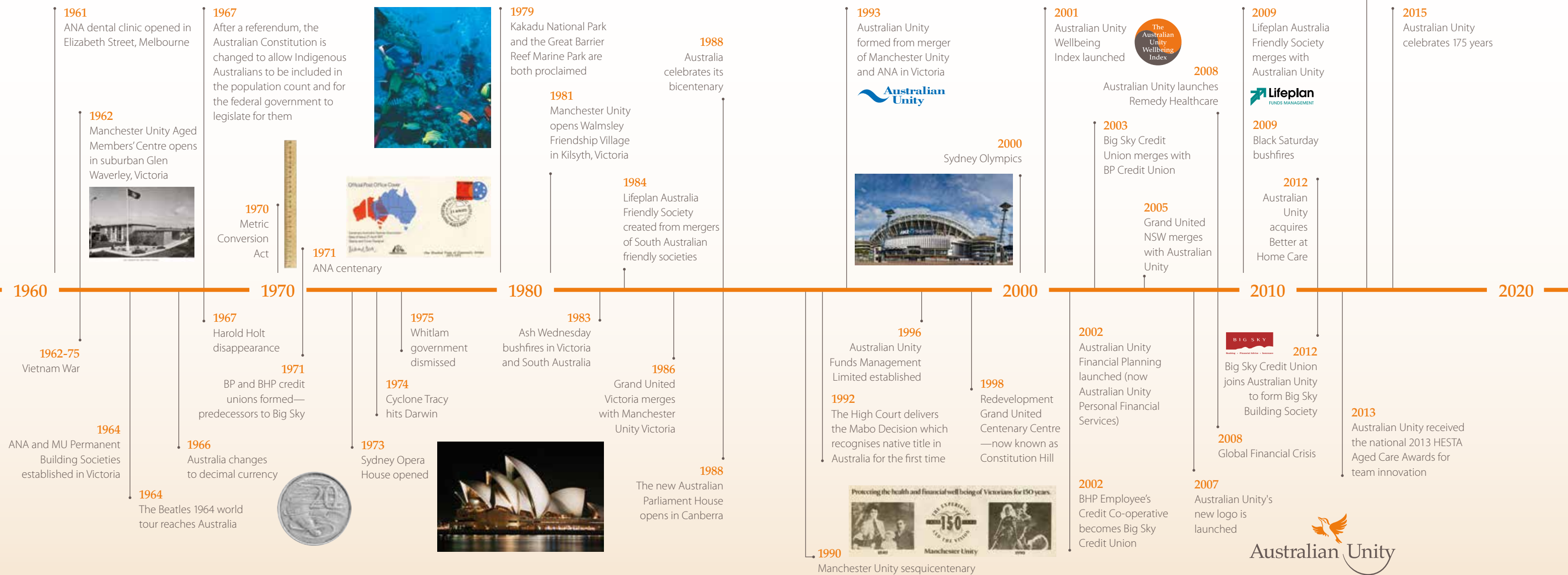
1950

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

1948
ANA General Insurance Company established

1901 to 1960

1961 to 2015 >



Governance statement

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

Regulatory Framework

ASX Listing Rules

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

Regulators

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

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

Australian Unity Limited board of directors

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

Board composition and expertise

As at 30 June 2014, there were nine 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 regularly to ensure that the mix of skills remains appropriate to achieve the Company's objectives. It is intended that the board will be made up of directors with a broad range of skills, expertise and experience, and 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 directing strategically and governing soundly the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

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

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

Role of Chairman

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

Meetings of the board

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

Avoidance of conflicts of interests

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

Retirement and re-election of directors

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

Committees

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

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

Audit and Compliance Committee

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

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

Risk Committee

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

Investment Committee

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

Human Resources, Remuneration and Nominations Committee

The Human Resources, Remuneration and Nominations Committee (HR Committee) is responsible for assisting the board and Chairman in relation to remuneration, nomination and related matters. These matters include evaluation of the performance of the board as a whole, its committees, individual directors and its 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 the performance measures, evaluation and remuneration of the Group Managing Director to the full board and approves the remuneration for Group Executives.

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

Remuneration

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

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

External auditor

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

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

Internal audit

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

Risk management

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

As part of the risk management framework, all business units regularly identify, evaluate and develop action plans to manage their business risks, maintain risk registers, which are regularly reviewed and updated not less than quarterly. Higher rated risks are reviewed by the risk committee each quarter in

addition to annual risk reviews by the board's risk committee, including existing and emerging risks, associated mitigation strategies and status of implementation.

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

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

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

Compliance

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

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

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

Financial overview

The following pages tell the story of the company's year in numbers. Readers experienced in analysing company accounts will find them straightforward to navigate as they are prepared in accordance with the requirements of the *Corporations Act 2001* and the relevant accounting standards. As a mutual, Australian Unity has more than 300,000 members, not all of whom will be familiar with financial accounts. This overview is intended to highlight some of the salient points and information found in the following pages, but is not intended as a substitute for a full and proper analysis.

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

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

The Consolidated Statement of Comprehensive Income and related notes list the income and expenses that produce the overall profit after tax of \$29.65 million. This combines the results of all of the company's operations from across the portfolio of businesses.

Readers can see from Note 39 that the revenue and other incomes presented in the statement of comprehensive income of \$1.20 billion combines the amount attributable to members of Australian Unity of \$1.02 billion and the amount attributable to benefit fund policyholders of \$181 million. Note 39 shows that revenue attributable to Australian Unity members has increased by six percent year on year. Strong contributors to this increase include health insurance premiums up seven percent and retirement village fees and subsidies up 29 percent (as shown in Note 7).

Expenses attributable to members of Australian Unity, refer Note 39, have increased by 6 percent or \$56.93 million compared to the prior year. This was primarily driven by an increase in net health insurance claims of 8 percent, or \$48.44 million as shown in Note 8. These higher than anticipated claims were largely in the Corporate Health business, GU Health, as the Group Managing Director has noted in his report.

One way to examine the performance of each of the company's businesses separately is to look at Note 5, the Segment Information, which demonstrates the importance of our portfolio of businesses. Traditionally, private health insurance has been the company's largest and strongest business, but the company has been working over the past decade or so to build up the relative strength of the other parts of the business. Note 5 shows that the non-Health Insurance businesses combined are now contributing just over 50 percent of the company's adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA), excluding corporate functions and eliminations.

Another important point to observe in Note 5 is that earnings are lower in the year under review in the two business areas that have been most impacted by external risk. Health Insurance adjusted EBITDA of \$38.77 million is 12 percent lower than the previous year for reasons already canvassed and the Investments business' adjusted EBITDA of \$13.76 million is 10 percent lower than the previous year. On the other hand, the Retirement Living business valuably developed its offerings and also benefited from the strength in the property market across the country, and posted a 69 percent increase in adjusted EBITDA, to \$21.33 million.

Note 5 also refers to investment income of \$17.80 million. This figure represents the return the company makes on its various investments in cash, financial assets and investments in joint ventures and associates. Year on year this decreased 35 percent compared to the previous year of \$27.48 million. The reader will notice that Note 7 has another investment income figure, the statutory accounts definition, of \$8.13 million. This is mainly because the amount in Note 7 excludes dividends and distributions (shown separately in Note 7), and the share in net profit of associates and joint ventures (shown in the statement of comprehensive income).

The Consolidated Balance Sheet details the company's assets and liabilities, along with equity. An important measure of company strength is its gearing ratio, or how much debt the company is carrying. As Australian Unity has some debt instruments in market there is a maximum covenant set on the gearing ratio of 45 percent. Note 25(a) reports the gearing ratio for the company of 38.3 percent—well within this limit. Notes 22 and 25 show that over the past year, corporate debt—excluding call deposits, term deposits, mortgage offset savings accounts and debt establishment costs—has increased by 20 percent, from \$232.07 million to \$278.23 million. The construction of two aged care facilities in Victoria at Carlton and Mornington are the main drivers of the \$30.26 million increase in development finance loans. In July 2013 we successfully replaced the \$25.00 million subordinated debt in Australian Unity Health Limited with a \$30.00 million issuance on a 10-year (non-call five year) term. On 30 June 2014, Series 4, \$10.00 million, of our retirement village investment notes was fully subscribed.

During the year the company operated well above the regulatory capital requirements for each regulated entity. A significant amount of management and board time was spent on the changes to the regulatory capital that our two private health insurance funds are required to hold. While the outcome is that both funds are required to hold less capital, we have taken a conservative view and will not be releasing any capital, as a result of the change, from the funds into the parent company in the short term.

Another indicator of a company's health is its interest cover, or the proportion of its earnings needed to make interest payments. For the 2014 year, this was 2.93 times compared to the previous year of 2.83 times.

The information presented in Note 4, Fair Value Measurement has changed year on year with the introduction of a new accounting standard, AASB 13, which will provide the reader with consistency when reviewing the accounts of similar organisations. In previous years, the majority of financial assets were presented as Level 1, unadjusted quoted prices in active markets for identical assets or liabilities. This year the majority of financial assets are set out as Level 2, inputs other than quoted prices included within Level 1 that are observable for the asset or liability. This is purely a classification change and not a reflection on the quality of the underlying assets and liabilities.

The final area of attention is consideration of the Consolidated Cash Flow Statement. Net cash flow from operations was positive at \$105.59 million, a significant increase over last year, which had a net outflow of \$37.19 million. The increased inflows were cash receipts from customers and deposits while increased outflows were experienced in claims and record lending in Big Sky Building Society.



Kevin McCoy
Chief Financial Officer

Financial Report for the year ended 30 June 2014

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

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

114 Albert Road, South Melbourne VIC 3205

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 39 to 49 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 27 August 2014.

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2014.

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
Rohan Mead, Group Managing Director & CEO
Melinda Cilentio, Director (appointed 1 May 2014)
Eve Crestani, Director
Stephen Maitland, Director
Peter Promnitz, Director
Warren Stretton, Director
Greg Willcock, Director
Amanda Hagan, Acting Group Managing Director (appointed alternate for Rohan Mead for the period 1 September 2013 to 27 October 2013)
John Butler, Director (ceased 29 October 2013)
Ian Ferres, Director (ceased 1 August 2014)

Company secretaries

Verran Fehlberg and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2014.

Principal activities

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

Dividends

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

Operating and financial review

Revenue and other income increased by almost five percent to \$1,197.43 million during the year ended 30 June 2014. Overall the Group's business segments experienced solid operating revenue growth, partially offset by lower investment returns on the Group's investible funds. Benefit fund revenue was steady.

Total expenses, excluding finance costs, were 5.7 percent higher at \$1,124.72 million due to an 8.5 percent increase in net health insurance claims expenses to \$619.11 million. The growth in expenses other than net health insurance claims expenses was limited to 2.5 percent after including a number of one-off costs associated with implementing legislative changes.

The Group achieved a profit after income tax of \$29.65 million. Although only marginally higher than the \$29.41 million for last year, the result represents an improved trading position for the overall Group's operations. Operating earnings were \$38.21 million for the year ended 30 June 2014 compared to \$31.62 million reported in the previous year. This result was achieved notwithstanding the effects of increased claims in the Healthcare business, the costs associated with legislative changes and materially reduced income from the Group's investment portfolio, the prior year investment income having included some material non-recurring items.

The Group continues to be focused on organic growth and pursuing its strategy of serving the wellbeing needs of Australians while developing longer term plans to extend the reach of services and products to enable millions of Australians to enjoy wellbeing. This strategy requires us to continue building a commercial, sustainable portfolio of businesses that foster wellbeing.

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

Key aspects of the operating, financial and strategic performance of each Group business during the year are set out below.

In assessing the performance of its operating business segments, the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA). As the name indicates, this measure excludes the effects of depreciation and amortisation, interest on external borrowings and investment income. It also excludes other non-recurring expenditure.

A reconciliation between adjusted EBITDA and profit after income tax is disclosed in note 5 to the consolidated financial statements.

Healthcare

Overview

Australian Unity is one of the nation's largest health insurance providers with 226,105 policyholders throughout Australia.

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

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

Growth

Total segment revenue for the year under review for the combined Healthcare business was \$789.15 million at 30 June 2014 (2013: \$735.22 million).

Adjusted EBITDA was \$43.57 million compared to \$47.82 million for the previous year due to the adverse claims experienced in the corporate health insurance fund.

This outcome reflects a continuation of the patchy economic conditions and regulatory issues which have been affecting the whole private health insurance sector for a number of years.

This has led to:

1. Customers downgrading to more affordable policies due to reductions in government contributions to health insurance premiums;
2. An increase in claims rates; and
3. A slowdown in policyholder growth rates.

Healthcare (continued)

Private health insurance has been subject to a multitude of legislative changes and Australian Unity has devoted considerable resources and effort to implementing these changes and informing customers of their implications.

The bulk of these changes started taking material effect in 2014. Looking ahead, the business will focus its strategic effort towards continued growth - based on the quality of its healthcare programs and a customer centred approach - supported by planned industry leading advances in product development and preventative health programs.

Retail health insurance

The retail health insurance business successfully weathered both the patchy economic climate and the extra cost of legislative compliance and administration. In the year under review preparation for the indexation of the private health insurance rebate was a significant factor and this change, which came into effect on 1 April 2014, is now impacting every policyholder.

The number of retail health fund policyholders increased by 1.3 percent to 199,367 at 30 June 2014 (2013: 196,796).

During the year the retail health fund launched a new Private Health Insurance product suite providing customers with greater choice and flexibility.

The retail health insurance business also provides health insurance to overseas visitors and workers. During the year ended 30 June 2014 it increased the number of policyholders in this business by 18 percent with growth predominantly coming from workers holding Section 457 visas.

Corporate health insurance - GU Health

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 to 26,738 at 30 June 2014 (2013: 26,483).

The performance of GU Health was adversely impacted by a higher than anticipated claims experience. This was a corollary of the recent legislative changes. The slowdown in the resources sector in which a number of corporate clients operate also affected its financial results.

Remedy Healthcare

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

During the year Rehability, Remedy Healthcare’s home care service joint venture, became wholly owned by Remedy Healthcare. This transaction significantly increases the range of services Remedy can offer customers. It also permits greater participation in integrated preventative health and hospital discharge support programs across the combined business.

Remedy Healthcare’s expertise remained in strong demand during the year - with 11,000 new patients enrolled - and the total number of patients who have enrolled in, or completed, one of Remedy Healthcare’s programs since commencement passing the 46,000 mark.

Dental

Australian Unity operates four dental clinics in metropolitan Melbourne. Building on the success of the refurbishment of the Collins Street clinic, refurbishments to its other three existing clinics are now planned to improve the patient experience. In addition, plans are well advanced for opening a number of new clinics over the next several years.

The year under review saw patient numbers increase by four percent on the previous year, rising to 56,439.

Remedy and the dental business also continued to innovate in healthcare by actively offering patients an integrated dental health assessment based on the fact that oral health is a leading indicator of overall health.

Highlights

Despite the economic and regulatory factors at play across the private health insurance sector, both the retail and corporate funds saw increased numbers of policyholders in 2014.

In February 2014, AUHL launched a completely new Private Health Insurance product suite. Highlights of the new portfolio include:

- A simple percentage back extras proposition with no per item benefit limits, helping members to know exactly what they are getting back regardless of where they go;
- Flexibility with mix and match hospital and extras;
- ‘Top-ups’ in extras covers to boost limits on the most popular services of optical, dental and physiotherapy;
- New and improved ambulance coverage; and
- Excess waivers for children on family policies.

GU Health introduced an industry leading online claiming application process during the year. The innovative Flex-eClaim solution allows members to claim quickly and conveniently online.

Remedy Healthcare was awarded a contract to run the National Information Line on behalf of Osteoporosis Australia and executed a formal commercial partnership for services with the National Heart Foundation of Australia.

Remedy was also awarded a tender to provide complex disease case management services on behalf of a global healthcare company and it implemented three new programs: ‘Mind, Mood, Stress, Sleep’, *Diabetes Support Plus*; and an expanded *Rehab at Home* program, which now includes complex rehabilitation needs such as pulmonary, cardiac and general frailty.

Healthcare’s strategies and outlook

Australian Unity’s strategic outlook for its healthcare business is focused on:

- Differentiating its offerings in the retail healthcare market, introducing new products and services and further consolidating its leading position in the corporate healthcare market;
- Expanding Remedy programs nationally and opening new dental clinics nationally over the next two years;
- Continuing the effort devoted to promoting the wellbeing and financial benefits of preventative healthcare in the public and private health sectors;
- Further improving customer service, placing a priority on improving retention rates;
- Introducing a new Customer Relationship Management system (CRM);
- Launching a new customer communications system that will provide customers with more choice as to how they prefer to be contacted, for example by SMS or email; and
- Launching a mental health program.

Retirement Living

Overview

Against the backdrop of continued growth in Australia’s ageing population, Australian Unity Retirement Living again increased its financial contribution to Group results through a combination of development activity and ongoing strong growth in the home care business.

High occupancy levels at existing retirement villages and improved operating performance in the residential aged care facilities were also contributors to the increased profitability of the business.

The year was highlighted by the opening of Stage 1 of Australian Unity’s flagship development, Rathdowne Place in Carlton, Victoria.

Total segment revenue grew by 22 percent to \$89.21 million (2013: \$73.07 million) while adjusted EBITDA increased by 69 percent to \$21.33 million in the year to 30 June 2014 (2013: \$12.63 million).

Retirement Living provides Aged Care, Home Care and Retirement communities. The businesses strategy for the year was built on an increased focus on co-locating care on single sites and increasing its reach to senior Australians by providing assistance with daily living and other care services in the home.

The business is responding to the changing needs of 21st century retirees who are seeking more sophisticated and tailored accommodation and care options than did previous generations.

Retirement Living has responded to these changes in demand by:

- Incorporating emerging services into new developments;
- Renovating and updating existing facilities; and
- Growing its home care capacity.

Retirement Communities

The business owns and operates 19 retirement communities, including five aged care facilities, in Victoria and New South Wales.

The total number of home units increased to 1,986 (2013: 1,931) with the completion of construction of another 20 units at Peninsula Grange in Mornington, Victoria, 23 units at Victoria Grange in Vermont South, Victoria, and 12 units at Sienna Grange in Port Macquarie, New South Wales. The number of aged care beds increased to 613 (2013: 451).

Home care

Home care was again an important growth area for the business. Home care revenue grew to \$9.48 million for the year ended 30 June 2014 compared to \$4.98 million in the previous year. In addition to organic growth, Retirement Living expanded its home care portfolio through acquisitions during the year.

In November the business announced a home care partnership with KNS Essential Care. Through this partnership Retirement Living acquired a 50 percent share of Kenilworth Nursing Service which provides nursing care across the NSW Southern Highlands. This acquisition added 25 new employees to the home care business.

In June Retirement Living entered a contract to acquire INS Health Care, the community health division of The INS Group located in the Illawarra, Macarthur, Southern Highlands and southern Sydney areas of New South Wales. The acquisition is planned to be executed by the end of August 2014.

The acquisition of INS Health Care is planned to add 67 additional staff to the home care business, which at 30 June 2014 totalled 246 staff, an increase

of 52 percent. With INS Health Care joining the business, Retirement Living expects to provide more than 100,000 hours of home care in the year ahead.

Retirement Living also won valuable contracts and packages during the year as well as more than 40,000 hours of Home and Community Care (HACC) funding in New South Wales.

Development

A number of new communities were completed or were substantially progressed during 2014.

These were:

Rathdowne Place, Carlton, Victoria

Rathdowne Place will be a \$180 million Wellbeing Precinct in the heart of inner-city Carlton. The first stage, the \$67 million Wellbeing centre and aged care facility, was completed in April 2014. By the end of June, 76 new residents had already made their home there. Rathdowne Place seeks to redefine aged care, offering residents new levels of choice and flexibility. With Stage 1 now complete, Retirement Living expects construction of the next stage, 90 retirement apartments over eight levels, to start before the end of 2014.

Victoria Grange, Vermont South, Victoria

The final stage of the development at Victoria Grange in Vermont South has commenced with construction of independent living apartments, which will complement the villa housing and residential care accommodation options on site. The first apartment building was completed in 2014 with 13 apartments constructed. Works on the final two buildings, comprising 26 new apartments, are due to be completed early in 2015.

Peninsula Grange, Mornington Peninsula, Victoria

Twenty independent living units and additional community facilities were constructed during 2014 taking to 75 the number of completed and occupied units. The 102-bed aged care facility is on schedule for completion in early 2015.

Sienna Grange, Port Macquarie, NSW

There are now 41 units completed at this site, and its new community centre was completed and officially opened by the Hon Dr David Gillespie, the Federal Member for Lyne on 23 May 2014.

Lifestyle Manor, Bondi, NSW

The first stage of this premium retirement community is now complete and units are fully sold. Stage 2 of the development has been approved, adding 44 units to the existing 42 in this sought after area of Sydney. Construction is due to commence in late 2014.

Sales

Occupancy rates across the portfolio of properties continued to meet or exceed industry levels, with an average of 96 percent at Australian Unity retirement villages and 98 percent at aged care facilities, both representing small occupancy increases on the previous year.

Price growth of independent living units during the year exceeded expectation and strong sales reduced the number of days units remained on the market, contributing significantly to the improved financial performance of the segment.

Retirement Living (continued)

Aged care - Better Together

The award winning ‘Better Together’ model of care trialled at the Wahroonga facility in 2013-14 provided great insights into the provision of better care. This model seeks to give residents more control over their daily lives with the support of multi-skilled care partners who can provide an improved, holistic service. The trial indicated residents’ self-esteem and (self-reported) quality of life increased by 15 percent.

Following the success of the Wahroonga pilot, Australian Unity has adopted this model of care for its aged care services at both Rathdowne Place and Peninsula Grange, and will extend it across all aged care services from the latter part of the 2015 calendar year.

Challenges

Retirement Living’s rapid growth has been both an achievement and a challenge. To support the level of growth the business is experiencing in home care, new rostering and client management software is in development and will be introduced late in 2014. This system is designed to improve efficiency and responsiveness and to increase transparency of budgets for consumer-directed care. The benefits of this system are anticipated to become apparent to clients over the next 12 months.

The Living Longer, Living Better reforms introduced by the previous federal government took effect from 1 July 2014. While Australian Unity supports the principles underpinning these reforms it believes that some of the changes to accommodation payments, means-testing and co-contributions are inequitable and unnecessarily confusing for older Australians to contemplate at a vulnerable time in their lives. Australian Unity will continue to advocate for improvements in the regulatory regime to ensure fairness and sustainability.

Of particular concern is whether or not these changes encourage capital investment in the sector to provide much-needed new facilities. The test of these reforms will be whether providers respond to the accommodation needs of older Australians rather than extending the life of facilities beyond what is in the interests of clients and the sector.

Outlook

Over the next 12 to 18 months Australian Unity will seek further opportunities to expand its home care services and continue to renovate its existing portfolio of facilities to meet the needs of today’s discerning retirees.

In this regard:

- Australia Unity acquired the remaining State Government land adjacent to the recently completed Wellbeing Centre and aged care facility (at Rathdowne Place) in Carlton, Victoria in April 2014. The next stage of the project, 90 retirement units, will be built on this land and is expected to commence in late 2014.
- An additional 26 independent living apartments at Victoria Grange in Vermont South are due to be completed in 2015. These will add further independent living options to the existing villa housing and residential care services on that site.
- Australian Unity’s board has approved a partial redevelopment of The Governors Retirement Resort in Port Macquarie. This will see 26 serviced apartments demolished and replaced with 12 contemporary independent living units, upgraded community facilities and new entrance areas.
- The business continues to assess a number of strategic home care acquisition opportunities that will continue to strengthen its foothold in areas where demand for assistance continues to be identified.

Investments

Overview

Australian Unity’s Investments business aims to enhance financial wellbeing through the provision of a broad range of products for borrowing and lending, personal investment, superannuation, retirement, and life events, to individuals, financial advisers and institutions.

Through joint venture partnerships, Australian Unity offers expertise in fixed interest, and Australian, global, Asian and microcap equity investments. This is complemented by an in-house team managing real estate, and a range of market-leading tax-effective investment bonds. Australian Unity also delivers a range of comprehensive banking services to a growing customer base that includes home loans, savings accounts, term deposits, investment advice and insurance services through Big Sky Building Society.

During the year investment returns were strong across most asset classes. The Australian share market returned 17.3 percent (including dividends). Most of the returns came during the first half of the year, while the second half proved more challenging as the Australian economy struggled to rebalance away from mining investment.

Global share markets were also very strong during the first half of the year, and held ground in the second half. Although news of political unrest in the Ukraine and Middle East put a brake on returns in the second half, developed markets still managed a 19.3 percent return over the full year. Emerging markets did not fare as well, returning 10.6 percent over the year.

Interest rates remained remarkably low throughout the year, with bond yields reaching their low point by the end of the year. The Australian bond market returned 6.1 percent over the year, despite the low yields on offer.

The total value of funds under management for the Investments business was \$7.36 billion (2013: \$7.11 billion). Support for international equity joint venture partner, Wingate Asset Management, and the Healthcare Property Trust, as well as positive equity markets in Australia and the United States contributed to inflows. Substantial repayments of capital to investors in mortgage and property trusts contributed to outflows.

The business recorded a decrease in total segment revenue to \$103.21 million (2013: \$111.66 million). This result reflects a creditable performance, and the impact of low interest rates, in a competitive and challenging business environment in both the asset management and banking businesses.

Adjusted EBITDA decreased to \$13.76 million for the year ended 30 June 2014 (2013: \$15.35 million). A tight focus on costs and business efficiencies helped to largely offset the decrease in revenue.

During the year the Investments business completed a number of initiatives to simplify its business and capital structures and continued to focus on the efficiency of its operating model. This included the closure and merger of several funds, and consolidation of licenses and responsible entities for its investment products.

The Australian Unity Investments team also manages the investment portfolio of the Australian Unity Group, which achieved an overall return of 5.1 percent on the Group’s investment assets (2013: 6.8 percent). This result was in line with its benchmark.

Following its launch last year, the Federation Managed Accounts platform continues to receive strong interest from independent dealer groups, financial advisers and trustees of self-managed superannuation funds. During the year the platform reached \$173 million in funds under administration. As at 30 June 2014, Federation had more than 30 investment managers, offering 69 fund options, and six separately managed accounts for investors to choose from.

The Pro-D managed fund range was originally developed in conjunction with Australian Unity Personal Financial Services. The fund continues to gather momentum, with growing support from financial advisers and investors. The three Pro-D funds include balanced, growth and high growth options and respectively returned 10.82 percent, 13.66 percent and 15.55 percent per annum for the year ended 30 June 2014.

Equities

Platypus Asset Management

Australian equities performed strongly during the 2014 financial year and Platypus Asset Management increased funds under management and advice to \$1.33 billion (2013: \$1.26 billion). The Platypus Australian Equities Trust (wholesale) returned 20.56 percent for the year to 30 June 2014 (well above the benchmark return of 17.25 percent).

Acom Capital

The small and microcap sectors of the ASX, which were out of favour for the 2013 financial year, saw a renaissance this year. Reflecting this environment, Acom’s funds under management increased to \$1.09 billion during the year (2013: \$977 million). The Acom Microcap Trust (wholesale) returned 17.22 percent for the year, ahead of the benchmark return of 16.91 percent.

The Acom Capital Asia Small Cap Fund posted a return of 13.70 percent for the 12 months to 30 June, which was above its benchmark return of 11.99 percent.

In May 2014, Acom Capital launched the Acom Capital Investment Fund (ASX: ACQ), a listed investment company which raised \$50 million from investors. The Fund invests in listed and unlisted microcaps (companies with enterprise valuations less than approximately \$440 million).

Wingate Asset Management

International equities performed strongly over the year as evidenced by the MSCI World (ex Aust) \$A Net Dividends Reinvested Index which achieved a 20.41 percent return.

Wingate Asset Management significantly increased funds under management to \$161 million, up from (2013: \$107 million). Wingate’s defensive style continues to resonate with a broader audience of financial advisers and investors.

Testament to its approach and track record, Wingate was recognised as a finalist in the undiscovered manager category in the Morningstar Awards 2014*. The Award identifies and recognises the Australia-domiciled fund manager which, in Morningstar’s opinion, has excelled in its sector in the year for which the award has been made.

Seres Asset Management

Seres Asset Management, an Asian equities manager, saw funds under management decrease from \$51 million to \$46 million during the year. The Seres Asian Equities Opportunity Fund returned -5.72 percent for the year to 30 June 2014, below the benchmark MSCI ACFM Asia Index of 9.80 percent.

While the fund underperformed the broader market, Seres predominantly invests in the small and mid-cap part of the Asian market, which experienced prolonged volatility during the first six months of calendar 2014. Seres’ idea-driven and benchmark-unaware approach also resulted in significant underweight positions in China, Korea and Taiwan, all of which outperformed the MSCI ACFM Asia Index during the year.

*Morningstar Awards 2014 (c). Morningstar, Inc. All Rights Reserved. Awarded to AUI Wingate Global Equity for Undiscovered Manager Category Finalist, Australia.

Note: Gross funds under management are shown for 2013 and 2014 for joint venture partnership investment managers. In some cases this reflects an adjustment to the prior year.

Fixed interest

Altius Asset Management

Altius’ funds under management increased from \$531 million to \$549 million at year end.

The Altius bond fund returned 5.95 percent for the year ended 30 June 2014. This compared favourably with the Fund’s cash benchmark, which returned 2.56 percent but was slightly below the fund’s bond benchmark, which returned 6.09 percent.

Australian Unity Real Estate and Mortgages

During the year, Australian Unity’s real estate investment team received Zenith’s highly regarded Unlisted Property Trust Manager of the year award - reflecting the team’s experience and outstanding track record over an extended period.

The Healthcare Property Trust continues to enjoy strong support from the adviser and investor community. The Trust achieved a return of 9.03 percent for the year to 30 June 2014 (2013: 9.22 percent). During the year, the Trust successfully completed a number of large-scale developments in high growth regions, including at the Peninsula Private Hospital and the Valley Private Hospital.

The Retail Property Fund achieved an 8.42 percent return for investors in the year to 30 June 2014 (2013: 6.14 percent), which was considered a strong result given difficult retail trading conditions during the period. During the year the Fund completed the first phase of the \$90 million expansion of the Waurn Ponds Shopping Centre in Geelong, creating 500 jobs in the region. The Fund subsequently sold 50 percent of its interest in the Centre to a long term investor for \$63 million, crystallising a capital gain for investors, and improving the fund’s earnings and distribution profile.

The Australian Unity Office Property Fund achieved a return of 5.91 percent for the year to 30 June 2014 (2013: 11.66 percent). The return was impacted by transactional costs and the sale of the Fund’s interest in the Centennial Plaza buildings. In December 2013, investors in Australian Unity Investments’ Fifth Commercial Trust voted strongly in favour of the proposal to merge with the Fund, creating a \$370 million property fund with office properties in New South Wales, Melbourne, Adelaide, Brisbane and Canberra.

The Australian Unity Diversified Property Fund achieved a return of 10.55 percent for the year (2013: 9.96 percent). This result reflects the diversified nature of the portfolio which, on average, is 93 percent occupied with a lease term of five years across office, retail and industrial property sectors. The Fund recently entered into an agreement to acquire one of Melbourne’s most environmentally sustainable office buildings at 200 Victoria Street, Carlton, Victoria.

Mortgages

The business continued to progress the winding up of the Mortgage Income Trust and High Yield Mortgage Trust. Since the wind-up commenced in December 2011, a key focus has been to ensure the best possible outcomes are achieved as assets are realised. During June 2014 both Trusts made additional unscheduled payments to investors totalling \$100 million (the High Yield Mortgage Trust returned \$30m, and the Mortgage Income Trust returned an additional \$70m).

Investments (continued)

Total funds under management in Australian Unity’s Real Estate Investment business decreased slightly during the year to \$1.44 billion (2013: \$1.50 billion). This is largely due to the sale of assets, reduction of debt on some funds, and repayment of capital to investors.

Lifeplan

Lifeplan Australia Friendly Society (Lifeplan) continues to be Australia’s largest provider of investment bonds and funeral bonds, and a leading provider of education savings plans. The Australian Unity Investment Bond business merged with Lifeplan on 3 July 2013, bringing the two societies together to provide more efficient, streamlined and improved products and services to members.

Funds under management and administration increased to \$1.92 billion (2013: \$1.86 billion).

During the year, Lifeplan’s NextGen Investment product was added to the adviser recommended list of another major Australian bank, bringing the total to three of the major banks, in addition to a large number of independent advice groups. Sales of Lifeplan’s growth products increased by around 30 percent (compared to 2013).

Big Sky Building Society

In its second full year as part of Australian Unity Investments, Big Sky Building Society now has total on-balance sheet assets of more than \$700 million at 30 June 2014 (2013: \$618 million). Big Sky experienced strong lending growth during the year, making a record number of loans (\$168 million in loans funded). This growth significantly outperformed all three competitor banking sectors: major banks, major regional banks, and other building societies.

During the year, Big Sky was awarded ‘Best Cash Management Account’ in the Smart Investor Blue Ribbon Awards 2013 (and recently received the award for 2014 as well), best deposit products category, and was also named as a finalist in the ‘Building Society of the Year’ award.

Big Sky also has \$639 million in funds under advice (FUA) within Big Sky Financial Planning (2013: \$569 million). The increase was primarily due to the successful integration of Brisbane based HN Financial Partners following its acquisition in 2013, strong client retention and inflows, and positive investment returns on client portfolios. Big Sky Financial Planning has a team of qualified and experienced advisers who operate as part of Australian Unity Personal Financial Services.

Investments strategy and outlook

The long-term trend for the Investments business is positive. Strong underlying drivers of industry growth remain: an ageing population; more financially informed and questioning investors; mandated superannuation with increasing contribution rates; and rising costs of retirement living and healthcare.

However, investment and banking markets remain highly competitive and consolidated, dominated by large groups. Profitability in banking continues to be challenging, due to a combination of historically low interest rates, subdued credit demand and intense competition for lending and retail deposits.

The Investments business remains confident that its diversified business model, strongly focused on promoting wellbeing by providing quality financial solutions based on customer needs, continues to offer a compelling proposition.

Personal Financial Services

Working closely with other professional advisers, Personal Financial Services provides professional strategic fee-for-service advice to help its clients improve their current financial position and ultimately achieve their long term lifestyle goals.

Clients are offered regular financial mentoring and ongoing guidance—in all aspects of their personal finances—to set and keep them on the path to financial wellbeing.

For the second successive year Australian Unity’s financial advice business, Personal Financial Services, recorded growth and achieved its second annual surplus.

Funds under advice grew by 12 percent to \$3.48 billion (2013: \$3.10 billion) during 2014, leading to an 18 percent increase in total segment revenue to \$39.84 million (2013: \$33.69 million).

The success of the business is built on its position as a trusted source of advice with the ability to provide a full range of services.

Personal Financial Services’ adjusted EBITDA increased to \$2.33 million in the year to 30 June 2014, compared to \$2.09 million in 2013.

During the year the business continued to incur costs and invest significant resources in complying with a range of regulatory reforms, including the Future of Financial Advice (FoFA) reforms; the Stronger Super reforms; the Tax Agents Services Act; and the Accountants’ licensing reforms.

Advisers

Despite the recruitment challenges created by FoFA and other regulatory reform, Personal Financial Services has experienced solid growth in the recruitment of adviser practices in the year under review, adding 14 new practices across most mainland states. As at 30 June 2014 the business had 125 advisers compared to 118 at 30 June 2013.

The increase in the number of practices reflects the attractive environment Australian Unity has created for advisers. By offering a relationship-based, full-service model offering, the Accountant Partnership Program—and a significant point of difference from banks and life insurance companies—the business has been able to attract the right advisers despite industry-wide regulatory headwinds.

While adviser numbers have not grown as rapidly as in previous years, the business continued to replace a number of less effective advisers with more experienced advisers and is working closely with its existing advisers to help them grow their businesses.

Accountants

The accounting industry continued to be an important source of growth. The number of accounting firms in the Australian Unity Personal Financial Services referral partner program increased to 314 at 30 June 2014 (2013: 277).

Mortgage broking and general insurance

Mortgage broking contributed to the increase in earnings. The business had \$778 million in loans under advice at 30 June 2014, compared to \$492 million a year earlier and achieved this result without an increase in the number of brokers from the previous year.

In January 2013 Personal Financial Services assumed responsibility for Australian Unity’s retail general insurance and car insurance services. During the first half of the 2014 financial year a key distribution agreement was renegotiated which provided improved revenue terms and greater control over the marketing spend.

The business’ current focus is on improving online sales capabilities, conversion rates and implementing new marketing initiatives. The mortgage broking and general insurance business is now well placed to take advantage of the improved online presence and conversion capabilities.

Impact of regulatory reforms

Although the Personal Financial Services business grew overall, the growth rate in the business was slowed by both the uncertainty created by regulatory reform—particularly the Future of Financial Advice (FoFA) changes—and also the change of government. By year end a degree of confusion pertaining to these changes remained and the fate of some key legislation was unclear.

Despite this challenging operating environment Personal Financial Services remains well positioned to take advantage of opportunities arising from the consolidation of the industry that is occurring as a result of smaller advisory groups being unable to adapt and operate profitably in the new environment.

The competitive advantages of the Personal Financial Services business model - aligning readily with complementary businesses and looking at acquisitions as ways to improve profit as well as revenue growth – will enable the business to be well positioned to find ways to turn challenges into opportunities.

Personal Financial Services’ strategies and outlook

Looking ahead, Personal Financial Services will consolidate and pursue its existing successful strategy. Specifically, the business intends to:

- ▶ Continue to help advisers to grow their businesses;
- ▶ Continue to expand the accountants channel. Over the next two years another accountants licensing regime will come into being which will provide further opportunities to provide services to public practicing accountants;
- ▶ Be alert to the potential to grow adviser numbers as advisers from other institutions seek to make a career move to a more advice-based organisation;
- ▶ Continue to support Federation Managed Accounts, in partnership with Australian Unity Investments and joint venture partner FedInvest; and
- ▶ Expand the general insurance broking service, creating a full capability in this area, and subsequently roll this out though the business’ accounting, brokering and financial planning networks.

The outlook for the medium to long term is positive as Personal Financial Services looks to leverage environmental opportunities while continuing with existing growth strategies.

Personal Financial Services has created a compliant, resource-rich and thought-leading environment for its Australia-wide network of experienced self-employed and employed financial advisers. Such an environment will enable them to efficiently and confidently provide each of their clients a detailed, robust and tailored blueprint for financial success.

Personal Financial Services will continue to leverage its heritage and philosophy to take up the opportunity inherent in the move across the sector to customers seeking increasingly tailored levels of advice.

Significant changes in the state of affairs

Total members’ funds increased to \$508,340,000 at 30 June 2014 (2013: \$478,675,000), an increase of \$29,665,000. This movement reflects profit for the year offset by movements in reserves.

Matters subsequent to the end of the financial year

In August 2014, Australian Unity Retirement Living Management Pty Ltd (AURLM) expects to complete a transaction to acquire INS Health Care (INS), the home care business of C.Rafin and Co Pty Ltd in Wollongong, New South Wales. The principal activity of INS is the provision of community health care and home help services in New South Wales. The business acquired mainly consists of 126 government funded aged care packages, intellectual property, business records, customer contracts, stock and equipment. As part of the agreement, all the key personnel and the majority of carers will transfer to AURLM. The cash purchase consideration amounts to \$6 million, subject to an adjustment for the estimated leave entitlement amount of the transferring employees. The identifiable assets acquired mainly consist of intangible assets which are the aged care packages and customer contracts. The transaction is planned to be completed by end of August 2014. If, after the completion of the transaction, the acquiree is awarded new aged care packages under the Federal government’s Aged Care Approvals Round, these packages will be transferred to AURLM at a pre-determined amount based on a certain formula up to \$1 million. Through this acquisition the Group has expanded the range of aged care business through community and home care services.

On 27 August 2014, Calliden Group Limited announced that it had entered into a Scheme Implementation Deed with Steadfast Group Limited under which Steadfast would acquire all of the share capital in Calliden. Key terms of the Scheme of Arrangement include a total payment to shareholders of 46.5 cents per share and the unanimous recommendation of the board of Calliden that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interests of Calliden shareholders. The Scheme is subject to approval by the Calliden shareholders, as well as the Federal Court of Australia, the Treasurer of the Commonwealth of Australia and the Australian Prudential Regulation Authority.

The approval process is estimated by Calliden to take until mid-December 2014. Australian Unity is yet to evaluate the offer. If the scheme is implemented in accordance with the proposal, the proceeds of the sale of Australian Unity’s shares in Calliden will amount to some \$14 million compared with the carrying amount at 30 June 2014 of \$10.25 million.

The board is not aware of any other matter or circumstance arising since 30 June 2014 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Likely developments and expected results of operations

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

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

The Group is subject to a wide variety of markets, particularly financial markets and property markets. Note 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

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

ROHAN MEAD, Group Managing Director & CEO, AMP (Harvard)

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

MELINDA CILENTO, BA, BEc (Hons), MEC

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

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, and chairman of the Risk Committee and Human Resources, Remuneration and Nominations Committee. She is also chairman of Mercer Superannuation Australia Limited, a director of Mercer Outsourcing (Australia) Pty Limited, a director of Seres Capital Management Limited (Hong Kong) and a director of Zurich Australia Limited. Ms Crestani is qualified in law and management, and is a member of the ASX Appeal Tribunal. She consults in finance, strategic planning, marketing and management. She is a founding fellow of the Australian Institute of Company Directors. Ms Crestani was previously a director of SFG Platform Services Limited. She has not held any directorships of listed entities in addition to those set out above during the last three years.

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

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

PETER PROMNITZ, BSc (Hons), AIAA, FAICD

Mr Promnitz was appointed to the board of Australian Unity Limited on 1 January 2013. He is a director of a number of Australian Unity Limited subsidiaries, Chairman of the Investment Committee and a member of the Human Resources, Remuneration and Nominations Committee and Risk Committee. He is a director of Elite Superannuation Services Pty Ltd. He was formerly Regional Head of Mercer in Asia Pacific and a member of the global Executive Committee, a role he retired from in December 2012. Mr Promnitz is a qualified actuary. Prior to his senior executive role in Asia Pacific with Mercer, his business experience includes a diverse career in financial services in Australia and New Zealand. He has led investment, superannuation, actuarial and human resource consulting businesses in both executive and non-executive capacities with a personal focus on clients, diversity and governance. Mr Promnitz was previously a director of SFG Australia Limited. He has not held any directorships of listed entities in addition to those set out above during the last three years.

WARREN STRETTON, FAICD, FCPA, FCIS, FGIA, FTI, 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, Human Resources, Remuneration and Nominations Committee and the Investment 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, 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 a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and Risk Committee. Mr Willcock is also a director of the Customer Owned Banking Association (COBA), the industry advocate for Australia's customer owned banking sector. Mr Willcock has over 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Australia Bank in the areas of risk management, strategy and change management. Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

AMANDA HAGAN, BSc (BIT), SIA, GAICD

Ms Hagan was appointed acting Group Managing Director and alternate for Rohan Mead for the period 1 September 2013 to 27 October 2013. 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 a director of the Australian Health Service Alliance (a cooperative hospital contracting company formed by 24 health insurance funds) and Private Healthcare Australia (the industry's peak representative body). Ms Hagan has more than 15 years experience in senior roles consulting on strategic projects for a range of companies including AGL, American Express and Energy Australia. Before joining Australian Unity, Ms Hagan held various executive roles with Perpetual Limited. Ms Hagan has not held any directorships of listed entities in addition to those set out above during the last three years.

JOHN BUTLER, FCPA, FIFS, FAICD

Mr Butler retired as a director of Australian Unity Limited on 29 October 2013. He 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 was a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and the Risk Committee. At the time he retired from the Australian Unity Limited board he was 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. 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.

IAN FERRES, AM, FIAA, FAICD

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

Company secretaries

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

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

CATHERINE VISENTIN, GIA(Cert), Assistant Company Secretary

Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group companies in 2004. She has over 19 years of involvement with the Australian Unity Limited Company Secretarial function.

Meetings of directors

The numbers of meetings of the Company’s board of directors and of each board committee held during the year ended 30 June 2014, and the numbers of meetings attended by each director were:

	Board		Audit and Compliance Committee		Risk Committee		Investment Committee		Human Resources, Remuneration and Nominations Committee	
	A	B	A	B	A	B	A	B	A	B
Glenn Barnes	10	10	–	–	–	–	–	–	6	8
Rohan Mead	9	10	–	–	–	–	–	–	–	–
Melinda Cilentio	1	1	1	1	–	–	–	–	–	–
Eve Crestani	10	10	–	–	4	4	–	–	8	8
Stephen Maitland	9	10	5	7	4	4	5	6	–	–
Peter Promnitz	10	10	–	–	–	–	6	6	8	8
Warren Stretton	10	10	7	7	–	–	6	6	8	8
Greg Willcock	9	10	5	7	4	4	–	–	–	–
Amanda Hagan	1	1	–	–	–	–	–	–	–	–
John Butler	4	4	2	2	2	2	–	–	–	–
Ian Ferres	10	10	6	7	–	–	6	6	–	–

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 Human Resources, Remuneration and Nominations 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 the Human Resources, Remuneration and Nominations Committee and Peter Promnitz is Chairman of the Investment Committee. Rohan Mead is an ex-officio member of all committees.

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

Remuneration Report

Details of the Group’s remuneration policy in respect of the Directors and other Key Management Personnel are included in the Remuneration report on pages 51 to 60. Details of the remuneration paid to Directors and other Key Management Personnel are also detailed in the Remuneration report. The Remuneration report is incorporated in and forms part of this Directors’ report.

Directors’ interests and benefits

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

Insurance and indemnification of directors and officers

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

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

Parent entity

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

Provision of non-audit services by the auditor

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

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and non-audit services provided during the period 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 period 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:

	2014 \$	2013 \$
Ernst & Young Australian firm:		
Audit of regulatory returns	247,376	285,089
Tax compliance services	282,172	443,436
Tax consulting services	1,120,647	505,868
Other services	9,500	69,043
Total remuneration for non-audit services	1,659,695	1,303,436

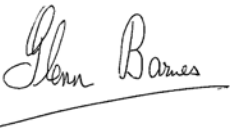
Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 50.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, 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
Chairman



Rohan Mead
Group Managing Director & CEO

South Melbourne
27 August 2014




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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 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Brett Kallio
Partner
Melbourne
27 August 2014

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Remuneration Report

This Remuneration report relates to Company performance for the year ending June 2014. This means that where information is included on individual remuneration it is a combination of incentive payments (where applicable) for the financial year ending 2013 that were paid in October 2013, together with ongoing remuneration paid during the financial year ending 2014.

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 2014 ('Year'). It has been prepared and audited as required by the *Corporations Act 2001* ('the Act'). The report covers all Key Management Personnel of the Group.

1. Overview

The board of Australian Unity Limited considers that its remuneration framework plays an important part in driving the successful performance of the Group and in turn the creation and delivery of value for members. The Human Resources, Remuneration and Nominations Committee ('HR Committee') in establishing and recommending the overall remuneration framework, including its governance to the board have had particular regard to the purpose and structure of the company, the business' strategies, market conditions and expectations of relevant stakeholders. The remuneration framework has remained consistent from the 2013 year and has been benchmarked and monitored to ensure it is:

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

Australian Unity is an independent mutual company that operates on commercial principles. The Group operates with a social purpose and is governed by its members. Profits are reinvested into the growth of member wellbeing services and products 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 serving some 200,000 customers;
- The Company also operates Australia's leading corporate health fund (GU Health);
- It continues to develop a significant preventative health and hospital substitution business, Remedy Healthcare. This is a unique business that provides evidence based health care to patients, directly and through corporates and other private health funds across Australia.

During the year Remedy Healthcare assumed full ownership of Rehability and the number of patients who have enrolled in, or completed, one of Remedy Healthcare's programs passed 46,000;

- The Group develops and currently operates 19 retirement communities, including five aged care facilities across New South Wales and Victoria, with growth planned for more communities;
- The Group is growing materially the retirement and aged care services provided in 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 value of the overall property management portfolio owned and managed by the Group is greater than \$2.25 billion;
- The aggregate property development pipeline being managed by the Group currently exceeds \$447 million with two developments totalling \$126 million having been completed during 2014;
- Australian Unity operates a diversified financial services business with over \$7.3 billion of investors' and members' funds invested in many different managed investment schemes, benefit funds, a building society and specialised investment joint ventures;
- 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 \$3.4 billion;
- The Group manages Big Sky Building Society Limited, a medium sized operation with a range of personal banking products and services; and
- Overall, the Group provides services to more than 300,000 members and more than 650,000 customers.

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

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

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	Chairman
John Butler ¹	Non-executive Director (part year)
Eve Crestani	Non-executive Director
Ian Ferres	Non-executive Director
Stephen Maitland	Non-executive Director
Peter Promnitz	Non-executive Director
Warren Stretton	Non-executive Director
Greg Willcock	Non-executive Director
Melinda Cilento ²	Non-executive Director (part year)

Executives	Position
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Investments
Kevin McCoy ³	Chief Financial Officer (part year)
Anthony Connon ⁴	Chief Financial Officer (part year)
Amanda Hagan	CEO Healthcare
Derek McMillan	CEO Retirement Living

1 Retired 29 October 2013
2 Appointed 1 May 2014
3 Appointed to CFO role 3 March 2014
4 Ceased in CFO role 3 March 2014

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

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

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

3.2 Advisers to the HR Committee

The HR Committee seeks advice from external advisers from time to time. For advice on matters pertaining to the remuneration of Key Management Personnel, the HR Committee has retained the services of Godfrey Remuneration Group Pty Limited (‘Godfrey Remuneration’). During the Year Godfrey Remuneration provided advice to the HR Committee on the remuneration practices for Non-executive Directors, in consideration of the competitive environment. The benchmarking advice provided indicated that the remuneration provided to directors was conservative and changes were recommended. In its annual review of remuneration for executives Godfrey Remuneration confirmed that the remuneration paid to executives during the Year was appropriate given the competitive market, see attached letter.

The amount paid to the Godfrey Remuneration Group during the Year was \$35,000.

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 and has remained consistent this year with prior years. Relevant external advice is sought on the remuneration framework and market practices are reviewed to ensure it remains relevant and comparable to the market. The key principles of the policy are to:

- Provide competitive rewards to attract, motivate and retain highly skilled employees;
- Establish goals and apply measures of performance 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.

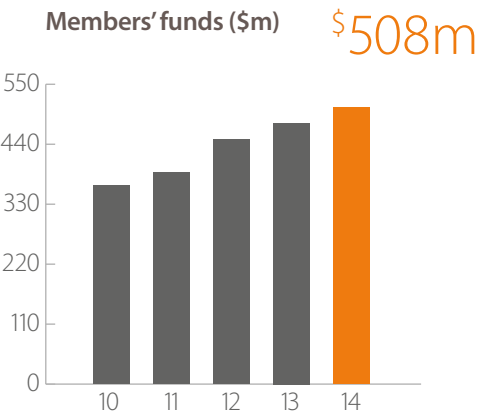
To deliver high quality wellbeing products and services in a sustainable manner the Group needs to be commercially successful and grow the business while effectively managing risk. Australian Unity generates profits as a means to provide the capital security necessary to sustain and extend member services 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.

In respect of the short term measures, the Group’s financial performance over the 2013 year (measured by Profit after Income Tax) is relevant. The short term performance payments in this report were paid to reward the \$29.4 million profit achieved in 2013. This profit was an increase from the 2012 year and the short term incentives paid recognised the performance of the different divisions and of the Group. The results in 2014, reported in other sections of this report, will form the basis for remuneration decisions that will be reported in the 2015 remuneration report.

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

Figure 1: Members’ funds over the last five years



When approving remuneration increases, the board and the HR Committee also have regard to non-financial objectives, which include customer satisfaction with the services provided, staff engagement and productivity, brand growth together with risk and compliance management. Over the 2014 year, Australian Unity built on the steady growth in customer and member services, in both volume and breadth, of recent years. A number of the other relevant key performance highlights are set out in the 2014 annual report which is available online at australianunity.com.au.

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

4. Senior Executive Remuneration

4.1 Remuneration Mix

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

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

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

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

4.2 Fixed Remuneration

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

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

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

There have been modest increases to fixed remuneration for executives over the past few years to reflect the market. Further details of individual KMP fixed remuneration during the Year are set out in table 6.1.

4.3 Variable remuneration

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

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

4. Senior Executive Remuneration (continued)

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 divisional profit);
- Customers, people and operations (for example customer satisfaction and staff engagement);
- Risk and compliance management; and
- Strategy development and implementation.

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

In each case, actual reward received is dependent on achieving minimum performance outcomes. To achieve maximum reward, the recipient must achieve exceptional business and individual performance outcomes.

A reward is not paid to anyone who, prior to the October 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 actual and forecast market conditions, 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 retains discretion to adjust the LTI arrangements either partially or fully to address any unusual changes in members' funds or potential impact on the Group. Performance rights may be forfeited for any action that would justify termination of employment or the like.

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 2013, the required Threshold Growth Rate was 6.5 percent per annum compound;
- Target Rate: A Target Growth Rate, reflecting the target rate the board wants the participants to achieve. By way of example, under the LTI granted in October 2013 the required Target Growth Rate was 7.35 percent per annum compound; and
- Cap rate: There is no entitlement to any increase in value above the cap rate set by the board (which was set at 11.7 percent in the October 2013 grant offer), although it is open to the board, in its sole discretion, to attribute some increase in value.

Maturity:

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

Illustrative Example

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

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

Then:

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

Further details of KPI incentive remuneration in respect of the last three years is set out in table 6.3. It is important to note that there has been variation in the incentives that were paid to executives over the past 2-3 years. The amount paid was directly linked to each executive's performance and the performance of the relevant division. This is illustrative of the strong links between performance and reward for executives in line with the Remuneration Policy settings.

4.3.3 Incentives: Group Managing Director

The Group Managing Director participates in different variable incentive schemes to other Senior Executives. There are short and long term components, the short term being a cash amount payable annually and the long term being a deferred cash amount payable over three years. The quantum of each scheme is set to a maximum of 50 percent of the fixed remuneration amount. The Group Managing Director's compensation in all usual circumstances is therefore capped at a maximum of no more than twice his fixed remuneration (base salary plus superannuation) in any one year. Further information on each scheme is set out below.

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

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

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

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

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. Senior Executive Remuneration (continued)

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 stringent ‘fit and proper’ standards under legislation and prudential standards. The constitution also provides that non-executive directors are to be paid fees as remuneration for their services as directors, subject to the aggregate fees not exceeding the annual sum last approved at a general meeting. Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 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. During the 2014 year, independent advice was received by the board on Director’s fees and a recommendation was made to increase Director’s fees to better reflect the market. This increase was recommended by the HR Committee before being approved by the board and made effective 1 March 2014. These changes do not impact the aggregate director fees cap approved by Members in 2007.

In addition to the above, directors appointed before the Company’s 2004 annual general meeting are entitled to a retirement allowance pursuant to the Non-Executive Directors’ Retirement Scheme. This scheme was applicable prior to that time but was closed to new directors in 2004. Under that scheme, participants are entitled to a retirement benefit equivalent to 2.2 times the average of their highest three consecutive years’ remuneration, after six years of service. Eve Crestani and Ian Ferres are the only directors 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 2014 and 2013

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

Name	Year	Fixed			Variable		Total remuneration	Increase in long service leave provision ³	Increase in retirement benefits provision ^{2,5}
		Cash salary and fees ¹	Non-monetary benefits ^{1,4}	Superannuation contributions ²	Cash bonus (Annual incentive or STI) ¹	Cash bonus (Deferred incentive or LTI) ³			
		\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors									
Glenn Barnes, Chairman ⁶	2014	207,616	–	65,269	–	–	272,885	–	–
	2013	250,000	–	–	–	–	250,000	–	–
John Butler (ceased 29 October 2014)	2014	38,285	–	3,542	–	–	41,827	–	–
	2013	101,929	–	23,071	–	–	125,000	–	–
Melinda Cilent (appointed 1 May 2014)	2014	23,658	–	2,188	–	–	25,846	–	–
	2013	112,408	2,475	10,117	–	–	125,000	–	18,101
Ian Ferres	2014	124,890	–	11,552	–	–	136,442	–	17,812
	2013	125,000	–	–	–	–	125,000	–	18,117
Stephen Maitland	2014	124,890	–	11,552	–	–	136,442	–	–
	2013	114,590	97	10,313	–	–	125,000	–	–
Peter Promnitz (appointed 1 January 2013)	2014	119,515	–	16,927	–	–	136,442	–	–
	2013	56,898	–	5,121	–	–	62,019	–	–
Warren Stretton	2014	124,890	–	11,552	–	–	136,442	–	–
	2013	104,559	–	20,441	–	–	125,000	–	–
Greg Willcock	2014	123,350	1,682	11,410	–	–	136,442	–	–
	2013	112,617	2,247	10,136	–	–	125,000	–	–
Sub-total	2014	1,010,294	3,528	145,388	–	–	1,159,210	–	52,175
Non-executive directors	2013	978,001	4,819	79,199	–	–	1,062,019	–	36,218
Executives									
Rohan Mead, Group Managing Director	2014	993,939	1,886	25,000	485,000	373,500	1,879,325	15,993	–
	2013	985,886	2,396	24,999	–	370,833	1,384,114	27,237	–
David Bryant	2014	660,417	95,231	24,775	425,345	47,808	1,253,576	18,060	–
	2013	641,820	95,585	16,470	–	114,329	868,204	17,554	–
Anthony Connon (ceased as Chief Financial Officer 3 March 2014) ⁷	2014	332,383	932	29,002	195,975	22,223	580,515	(14,574)	–
	2013	499,415	2,396	16,470	95,625	53,145	667,051	15,629	–
Amanda Hagan	2014	589,164	2,208	17,775	280,250	22,065	911,462	15,481	–
	2013	552,629	2,836	16,470	196,000	52,768	820,703	15,546	–
Kevin McCoy (appointed Chief Financial Officer 3 March 2014) ⁸	2014	149,477	191	5,811	–	–	155,479	1,262	–
	2013	500,940	5,990	16,470	–	67,719	591,119	15,719	–
Derek McMillan	2014	527,798	5,991	23,496	198,750	28,317	784,352	17,400	–
	2013	500,940	5,990	16,470	–	67,719	591,119	15,719	–
Total	2014	4,263,472	109,967	271,247	1,585,320	493,913	6,723,919	53,622	52,175
	2013	4,158,691	114,022	170,078	291,625	658,794	5,393,210	91,685	36,218

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. The provision relates solely to the discounted values of the future retirement benefit entitlements of \$287,057.50 for Ms Eve Crestani and \$287,057.50 for Mr Ian Ferres.
6 Mr Glenn Barnes superannuation contributions relate to the period 2009 to 2014 which were all paid in 2014.
7 Mr Anthony Connon’s 2014 remuneration relates to the period from 1 July 2013 to 3 March 2014.
8 Mr Kevin McCoy’s remuneration relates to the period from 3 March 2014 to 30 June 2014.

During the 2014 year two Key Management Personnel held loans advanced by Big Sky Building Society Limited, a wholly owned subsidiary. Both loans incurred interest on an arms-length basis.

6. Remuneration tables (continued)

A loan of \$500,000 was advanced to Mr John Butler in 2011 for five years bearing interest at 7.19 percent per annum fixed for three years. This loan had a balance of \$464,050 outstanding at 1 July 2013 and \$476,033 outstanding on 29 October 2013 when Mr Butler ceased to be a director. Interest of \$11,983 was earned on the loan during this period. A loan of \$50,000 was advanced to Mr Kevin McCoy on 11 July 2013 for two years bearing interest at 6.45 percent per annum. The balance outstanding on 3 March 2014, when Mr McCoy became a Key Management Personnel, was \$41,172. The balance outstanding on 30 June 2014 was \$35,872. Interest of \$606 was earned during this period. There are no other loans to Key Management Personnel at 30 June 2014 or that were held at any stage during the year to 30 June 2014.

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

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

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

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

Name	2014					2013				
	STI	LTI	Total variable	Fixed remuneration	Total remuneration	STI	LTI	Total variable	Fixed remuneration	Total remuneration
David Bryant										
Maximum entitlement	27%	27%	54%	46%	100%	27%	28%	54%	46%	100%
Proportion of entitlement paid	93%	11%	52%		74%	0%	25%	13%		53%
Proportion of entitlement not earned	7%	89%	48%			100%	75%	87%		
The variable proportion of total remuneration paid in the year 2013-2014 was 37 percent (2013: 13 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Anthony Connon (to 3 March 2014)										
Maximum entitlement	31%	25%	57%	43%	100%	26%	21%	47%	53%	100%
Proportion of entitlement paid	75%	11%	46%		70%	38%	25%	32%		68%
Proportion of entitlement not earned	25%	89%	54%			62%	75%	68%		
The variable proportion of total remuneration paid in the year 2013-2014 was 39 percent (2013: 22 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Amanda Hagan										
Maximum entitlement	26%	19%	45%	55%	100%	26%	20%	46%	54%	100%
Proportion of entitlement paid	95%	11%	60%		82%	70%	25%	51%		77%
Proportion of entitlement not earned	5%	89%	40%			30%	75%	49%		
The variable proportion of total remuneration paid in the year 2013-2014 was 33 percent (2013: 30 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Kevin McCoy (from 3 March 2014)										
Maximum entitlement	0%	0%	0%	100%	100%	–	–	–	–	–
Proportion of entitlement paid	–	–	–		100%	–	–	–		–
Proportion of entitlement not earned	–	–	–			–	–	–		
The variable proportion of total remuneration paid in the year 2013-2014 was 0 percent, as a result of the implementation of the company's incentive policies outlined in this report.										
Derek McMillan										
Maximum entitlement	24%	25%	49%	51%	100%	24%	26%	50%	50%	100%
Proportion of entitlement paid	75%	11%	42%		72%	0%	25%	13%		56%
Proportion of entitlement not earned	25%	89%	58%			100%	75%	87%		
The variable proportion of total remuneration paid in the year 2013-2014 was 28 percent (2013: 11 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.

Name	Date when LTI was granted	Long Term Incentive		Date when LTI fully matures	Maximum total value of LTI yet to mature¹
		Number of performance rights			
David Bryant	1 October 2013	1,821,182		1 October 2016	530,950
	1 October 2012	595,582		1 October 2015	363,875
	1 October 2011	581,056		1 October 2014	355,000
Amanda Hagan	1 October 2013	1,011,863		1 October 2016	295,000
	1 October 2012	419,424		1 October 2015	256,250
	1 October 2011	491,033		1 October 2014	300,000
Kevin McCoy	1 October 2013	257,253		1 October 2016	140,000
	1 October 2012	229,149		1 October 2015	140,000
Derek McMillan	1 October 2013	1,272,547		1 October 2016	371,000
	1 October 2012	377,482		1 October 2015	230,625
	1 October 2011	515,585		1 October 2014	315,000

1 The per annum compound Threshold Rates for performance rights granted 1 October 2011, 2012 and 2013 were 7.00 percent, 7.00 percent and 6.50 percent respectively. The maximum total value of LTI yet to mature equates to the amount payable if the per annum compound Target Rate is achieved. The per annum compound Target Rates for performance rights granted 1 October 2011, 2012 and 2013 were 8.75 percent, 8.75 percent and 7.35 percent respectively.

6.4 Details of remuneration - 2014 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 2014, 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.

Name	Short Term Incentive		Long Term Incentive					
	Paid in 2014¹	Forfeited in 2014	Award year²	Deferred incentive paid or payable	Deferred incentive forfeited	Date when tranche due²	Value of deferred incentive paid in 2014	Maximum total value of deferred incentive not yet due
	%	%		%	%		\$	\$
Rohan Mead	95	5	2013	80	20	2014	136,000	–
						2015	–	136,000
						2016	–	136,000
			2012	75	25	2014	127,500	–
						2015	–	127,500
			2011	67	33	2014	110,000	–

1 Mr Rohan Mead’s annual incentive was awarded on 1 October 2013.
2 Mr Rohan Mead’s deferred incentive is paid in three equal annual tranches commencing in the financial year following the financial year of award, as set out in section 4.3.3. The variable component of total remuneration paid was 45 percent (2013: 26 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 period¹	Employer initiated notice period²	Termination benefit³
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant, CEO Investments	6 months	6 months	none
Amanda Hagan, CEO Healthcare	3 months	6 months	none
Kevin McCoy, Chief Financial Officer	6 months	6 months	none
Derek McMillan, CEO Retirement Living	3 months	6 months	none

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



Godfrey Remuneration Group Pty Limited
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6 May 2014

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

Dear Ms Crestani,

Godfrey Remuneration Group Pty Limited (GRG) has for over 12 years been a specialist advisor on key management personnel remuneration. Our clients are mainly companies listed on the Australian Securities Exchange and include a significant number of the companies included in the S&P/ASX100.

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

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

During the 2012-13 financial year we conducted a full review of market practices relevant to Australian Unity's executives. A further review was undertaken in the 2013-14 financial year in relation to non-executive directors. Recently Australian Unity advised GRG regarding current remuneration practices as at 29th April 2014 which GRG has again assessed.

It is clear that Australian Unity's current remuneration practices for directors and executives are consistent with market practice taking into account that Australian Unity is a mutual company. For executives both the base packages and the "at risk" components of remuneration have been set such that at target performance, the total remuneration packages fall within the market practice range observed in a large sample of listed companies of similar size and complexity to Australian Unity where direct comparisons were possible. Where direct comparisons were not possible the packages fall within a range that is consistent with internal and external practices for roles at similar levels of seniority. The total remuneration packages continue to place a strong emphasis on performance while not producing excessive total remuneration package outcomes.

The non-executive director remuneration review recently completed indicated that practices appeared to fall on the side of conservatism at the time the review was conducted, and some increases were recommended as a result.

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

Yours sincerely,



Denis Godfrey
Managing Director

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Financial statements

Consolidated statement of comprehensive income

For the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Revenue and other income	7	1,197,432	1,141,787
Expenses, excluding finance costs	8	(1,124,723)	(1,063,897)
Finance costs	8	(18,140)	(19,316)
Share of net profit of associates and joint ventures	16	4,734	4,349
Profit before income tax		59,303	62,923
Income tax expense	9	(29,658)	(33,513)
Profit after income tax		29,645	29,410
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	27(a)	29	394
Income tax relating to components of other comprehensive income	27(a)	(9)	(118)
Other comprehensive income for the year, net of tax		20	276
Total comprehensive income for the year		29,665	29,686
Profit for the year is attributable to:			
Members of Australian Unity Limited		29,645	29,406
Non-controlling interest		-	4
		29,645	29,410
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		29,665	29,682
Non-controlling interest		-	4
		29,665	29,686

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 39.

Consolidated balance sheet

As at 30 June 2014

	Notes	2014 \$'000	2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	974,413	1,017,336
Trade and other receivables	11	103,122	89,632
Inventories		545	619
Loans and advances	12	24,061	23,626
Current tax assets		2,428	2,556
Financial assets at fair value through profit or loss	13	1,326,143	1,213,034
Held-to-maturity investments	14	80,467	69,736
Total current assets		2,511,179	2,416,539
Non-current assets			
Financial assets at fair value through profit or loss	13	34,587	43,466
Loans and advances	15	588,996	517,740
Investments in associates and joint ventures	16	46,740	42,783
Other financial assets		302	268
Property, plant and equipment	17	153,510	93,492
Investment properties	18	674,275	617,109
Deferred tax assets	19	–	8,672
Intangible assets	20	101,801	92,449
Other non-current assets		301	20
Total non-current assets		1,600,512	1,415,999
Total assets		4,111,691	3,832,538
LIABILITIES			
Current liabilities			
Trade and other payables	21	72,668	79,782
Interest bearing liabilities	22	661,298	586,194
Provisions	23	77,476	68,543
Other current liabilities	24	596,046	546,064
Benefit fund policy liabilities	37	185,822	221,513
Total current liabilities		1,593,310	1,502,096
Non-current liabilities			
Interest bearing liabilities	25	260,529	204,372
Deferred tax liabilities	26	43,984	28,215
Provisions		3,294	3,421
Other non-current liabilities		3,128	2,808
Benefit fund policy liabilities	37	1,699,106	1,611,718
Total non-current liabilities		2,010,041	1,850,534
Total liabilities		3,603,351	3,352,630
Net assets		508,340	479,908
EQUITY			
Members' balances		255,919	255,919
Reserves	27(a)	1,866	1,681
Retained earnings	27(c)	250,555	221,075
Members' balances and reserves attributable to members of Australian Unity Limited		508,340	478,675
Non-controlling interests		–	1,233
Total equity		508,340	479,908

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 2014

	Notes	Attributable to members of Australian Unity Limited					Non – controlling interest	Total equity
		Members' balances	Reserves	Retained earnings	Total			
		\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
Balance at 1 July 2012		255,919	1,188	191,886	448,993		1,229	450,222
Profit for the year		–	–	29,406	29,406		4	29,410
Other comprehensive income	27(a)	–	276	–	276		–	276
Total comprehensive income		–	276	29,406	29,682		4	29,686
Transactions with owners in their capacity as owners:								
Transfers within equity	27	–	217	(217)	–		–	–
Balance at 30 June 2013		255,919	1,681	221,075	478,675		1,233	479,908
Balance at 1 July 2013		255,919	1,681	221,075	478,675		1,233	479,908
Profit for the year		–	–	29,645	29,645		–	29,645
Other comprehensive income	27(a)	–	20	–	20		–	20
Total comprehensive income		–	20	29,645	29,665		–	29,665
Transactions with owners in their capacity as owners:								
Increase in ownership of majority owned subsidiary		–	–	–	–		(1,233)	(1,233)
Transfers within equity	27	–	165	(165)	–		–	–
		–	165	(165)	–		(1,233)	(1,233)
Balance at 30 June 2014		255,919	1,866	250,555	508,340		–	508,340

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

Consolidated statement of cash flows

For the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers		1,047,427	948,764
Claims and benefits paid		(610,858)	(566,617)
Payments to suppliers and employees		(329,676)	(297,390)
Life investment contracts - Contributions received		157,155	131,833
Life investment contracts - Withdrawals		(183,563)	(219,813)
Life insurance - Premiums received		233	292
Life insurance - Policy claims paid		(2,015)	(1,688)
Net receipts/(payments) of loans asset		(69,467)	900
Net receipts/(payments) of deposits liability		83,762	(36,684)
Interest received		39,512	46,851
Dividends and distributions received		5,595	8,426
Interest and finance charges paid		(32,982)	(38,183)
Income tax refunds/(payments)		463	(13,882)
Net cash inflow/(outflow) from operating activities	28	105,586	(37,191)
Cash flows from investing activities			
Payments for business combination		(3,769)	(2,592)
Payments for investments		(670,690)	(898,688)
Payments for property, plant and equipment		(50,492)	(25,816)
Payments for investment properties		(61,369)	(31,773)
Payments for intangible assets		(16,834)	(14,253)
Payments for investments in associates and joint ventures		(10,046)	(9,468)
Payments for additional shares in subsidiary		(1,119)	–
Payments for loans to related entities		(857)	–
Receipts from investments		556,010	859,963
Proceeds from sale of investment properties		1,580	11,810
Dividends received from associates and joint ventures		6,336	4,451
Proceeds from disposal of investment in joint ventures		1,447	–
Proceeds from disposal of property, plant and equipment		32	27
Proceeds from disposal of intangible assets		–	356
Net cash outflow from investing activities		(249,771)	(105,983)
Cash flows from financing activities			
Receipts from/(payments of) borrowings		46,159	(1,195)
Receipts from refundable lease deposits and resident liabilities		55,103	36,524
Net cash inflow from financing activities		101,262	35,329
Net decrease in cash and cash equivalents		(42,923)	(107,845)
Cash and cash equivalents at the beginning of the financial year		1,017,336	1,125,181
Cash and cash equivalents at the end of the financial year	10	974,413	1,017,336

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

For the year ended 30 June 2014

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 periods presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures. The financial statements are for the consolidated entity consisting of Australian Unity Limited (Parent entity) and its subsidiaries, referred to in these financial statements as the Group.

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

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.

(iii) 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.

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

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidation*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosures of Interest in Other Entities*, Revised AASB 128 *Investments in Associates & Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 2012-10 *Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits* (September 2011) and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011)
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

The adoption of AASB 10 resulted in changes in accounting policies as explained in the following paragraphs, but they did not impact the amounts

reported in the financial statements. The application of AASB 11 and AASB 13 may result in different recognition and measurement. However, these have no impact to the Group's accounting policies or any of the amounts in the financial statements. The other new accounting standards noted above introduced additional disclosures for the financial report. These also have no impact to the Group's financial statements.

AASB 10 Consolidation

AASB 10 was issued in August 2011 and has replaced the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation - Special Purpose Entities*. Under the new principles, the group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different with the application of AASB 10. Investments in other entities potentially impacted by AASB 10 were confined to the Group's investments in associates and joint ventures and investments in public offer managed investment schemes where Group entities act as the responsible entity. The Group also considered its relationship with two registered charitable organisations which it established.

In the case of the Group's investments in associates and joint ventures, it was apparent that the Group does not have the power to individually control the investee as it does not have voting control of any of these entities. As such, these entities cannot be consolidated and will continue to be equity accounted under AASB 128 *Investments in Associates and Joint Ventures*.

Group investments in managed investment schemes where Group entities act as the responsible entity may be held by corporate entities of the Group and/or by benefit funds. Corporate entities are owned by Australian Unity Limited while benefit funds are beneficially owned by the policyholders of those funds. The activities and financial position of benefit funds are included in the Group's financial statements in accordance with AASB 1038 *Life Insurance Contracts*. Narrow decision-making authority over the managed investment schemes is held and a market-based fee for services commensurate with the funds management services provided is received.

In reviewing the provisions of AASB 10 and its requirements for control, with particular regard to the links between power and exposure to variable returns, the Group assessed its position with regard to investments in managed investment schemes where Group entities act as the responsible entity. Returns normally arise through management and, sometimes, performance fees and, if applicable, through the holding of units. It was concluded that the Group's relationship with the managed investment schemes is, in most instances, that of an agent rather than a principal, and consequently the Group does not have the power to control where this is the case. With regard to those managed investment schemes where the Group most probably acts as a principal, the impact on the current year's financial statements is not material.

With regard to the two registered charitable organisations established by the Group, as the Group does not, and can never, have any right to the income or assets of the charities it has no exposure to returns from its involvement with those charities and cannot consolidate them under AASB 10.

1 Summary of significant accounting policies (continued)

AASB 11 Joint Arrangements

The standard requires investments in joint arrangements to be classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined that they are joint ventures. The Group's accounting for joint ventures has not changed as a result of the adoption of AASB 11. The Group continues applying the equity method in the accounting for its investments in joint ventures. The disclosures have been refined to comply with this new standard.

AASB 13 Fair Value Measurement

This standard establishes a single source of guidance for determining the fair value of assets and liabilities. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to determine fair value when fair value is required or permitted. The Group has assessed the determination of fair value of assets and liabilities and found no impact of AASB 13 application on the accounting policies or any amounts in the financial statements.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. These disclosures are provided in note 4.

(v) Early adoption of new accounting standard

The Group has elected to adopt the following standard early:

- AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*

The application of this standard has minimal impact on the impairment disclosures.

(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 2014 and the results of all subsidiaries for the year then ended.

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 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 the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Associates

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

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 arrangements

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

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

(iv) Equity method

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

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

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

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners 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 the Company.

(v) Changes in ownership interests

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

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

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

(vi) Life insurance benefit funds

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

(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 37.

(iii) Claims expense

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

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

1 Summary of significant accounting policies (continued)

(d) Borrowing costs

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

(e) Borrowings

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

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

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

(f) Business combinations

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

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

(g) Cash and cash equivalents

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

(h) Deferred acquisition costs

Acquisition costs 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 4. Movements in the hedging reserve in members' equity are shown in note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(j) Employee benefits

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

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

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on 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 twelve months after the end of each reporting period, regardless of when the actual settlement is expected to occur.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment

of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Superannuation

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

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

(k) Financial guarantee contracts

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

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

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

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

(l) Foreign currency translation

(i) Functional and presentation currency

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

1 Summary of significant accounting policies (continued)

(ii) Transactions and balances

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

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

(m) Goods and Services Tax (GST)

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

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

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

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

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

(n) Government grants

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

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

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

(o) Health insurance

(i) Classification

Health insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level

of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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

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

(ii) Claims expense

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

(p) Impairment of assets

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

(q) Income tax

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset 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 9.

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

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(f). 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 5.

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

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Bed licences are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) Management rights

Management rights acquired separately are initially recognised at cost. The cost of management rights acquired in a business combination is their fair value as at the date of acquisition. Management rights with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of management rights over their estimated useful lives, which vary from 4 to 20 years. These management rights are assessed for impairment whenever there is an indication that they may be impaired. Management rights with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Notes to the consolidated financial statements

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(iv) Computer software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as computer software. Computer software is initially recognised at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of software and licences over their estimated useful lives, which vary from 4 to 7 years.

(s) 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.

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset in accordance with AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* (refer to note 1(x)) and sold to a retirement village operator.

(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 (e.g. for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Impairment

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

(i) Loans and advances

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

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

If there is objective evidence that an impairment loss on the assets has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred but including an allowance for proceeds of realisation of collateral and other credit enhancements) discounted at the original effective interest rate for fixed

rate loans and at the current effective interest rate for variable rate loans. The carrying amount of the assets is reduced through the use of a provision account and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

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

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

(ii) Held-to-maturity investments

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

(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.

1 Summary of significant accounting policies (continued)

(w) Leases

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

Group as a lessee

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the leased assets' fair value or the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over their useful life. However, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term, the assets are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Group as a lessor

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(x) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Non-current assets classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

(y) Outstanding claims liability

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

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

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

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

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

(z) 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.

(aa) Property, plant and equipment

(i) Cost and valuation

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

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

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

(ii) Depreciation

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

The expected useful lives are as follows:

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

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

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount. 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.

(ab) 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.

(ac) 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.

(ad) 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.

(ae) Reserve for credit losses

The reserve for credit losses is used by a building society subsidiary company to recognise an additional impairment allowance for credit losses required by the Australian Prudential Regulation Authority (APRA) when reporting financial results to this regulatory authority. It is recognised as an appropriation of retained earnings to non distributable reserves. This additional impairment allowance is not permitted by Australian Accounting Standards to be recognised as an impairment charge against loans and overdrafts or recognised as an expense in the Consolidated Statement of Comprehensive Income.

(af) 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.

(ag) 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.

Notes to the consolidated financial statements

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

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.

(ah) 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.

(ai) 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.

(aj) 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.

(ak) 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.

(al) 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.

(am) 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.

(an) New accounting standards and interpretations

The Australian Accounting Standards Board (AASB) has issued some new and amended accounting standards that are not mandatory for 30 June 2014 reporting periods. The table below sets out the standards that are relevant to the Group.

AASB	Title	Operative Date*
AASB 9	Financial Instruments	1 January 2017
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]	1 January 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable amount disclosure for non-financial assets	1 January 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	1 January 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	1 January 2014
AASB 2013-7	Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders	1 January 2014
Revised AASB 1031	Materiality	1 January 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Conceptual Framework – period ending on or after 20 December 2013, Materiality - 1 January 2014, Financial Instruments - 1 January 2015
AASB 2014-1	Amendments to Australian Accounting Standards	Part A-C - 1 July 2014; Part D - 1 January 2016; Part E - 1 January 2015

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

The above standards are not yet effective for the annual reporting period ended 30 June 2014. Except for AASB 2013-3 (refer to note 1(a)), the Group has not applied the above standards in preparing the current year financial statements. Where applicable, the Group will apply the amendments to the annual reporting periods beginning on or after the operative dates set out above.

The following is the Group’s assessment on the potential impacts of the major amendments in the standard requirements. Application of the new standards above is not expected to impact the amounts reported in the consolidated financial statements or require changes in the Group’s accounting policies.

(i) AASB 9 Financial Instruments and related amendments

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard requires all financial assets to be recognised at fair value except for debt instruments with basic features. Where debt instruments’ contractual cash flows are solely payments of principal and interest on the outstanding principal, these instruments are recognised at amortised cost. For financial assets at fair value, any movements in fair value must be recognised in the profit or loss. Only fair value movements of those equity instruments that are not held for trading are permitted to be recognised in other comprehensive income. AASB 9 is not applicable until 1 January 2017 but is available for early adoption. The Group intends to apply this standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2018. Based on the existing recognition of financial assets and liabilities, the Group does not expect a material impact from the application of this standard.

(ii) AASB 2013-7 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policy holders

The new standard removed specific requirements in relation to consolidation from AASB 1038 which has left AASB 10 *Consolidation* as the sole source for consolidation requirements applicable to life insurer entities. Currently the consolidation of the benefit funds into the Group’s financial statements is in accordance with AASB 1038 *Life Insurance Contracts*. The Group does not expect a material impact from the application of AASB 10 to the consolidation of its life insurer subsidiary.

In May 2014 the International Accounting Standard Board issued IFRS 15 *Revenue from Contracts with Customers* which will supersede the current revenue recognition guidance. The standard sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. IFRS 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. IFRS 15 applies to an annual reporting period beginning on or after 1 January 2017 with early adoption permitted. The AASB has not issued the equivalent Australian standard. The impact of this standard has not been determined and the Group does not presently intend to adopt the standard before the operative date of the equivalent Australian standard.

1 Summary of significant accounting policies (continued)

(ao) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 41 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.

(ap) Comparative information

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

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

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

The Group tests annually whether goodwill or other intangibles have suffered any impairment. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated 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 18.

(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 36 and 37.

(vi) Long service leave provision

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

(vii) Income taxes

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

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

(i) Recovery of deferred tax assets

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

(ii) Classification of life insurance liabilities

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

(iii) Interest in subsidiaries, associates and joint ventures

The Group has investments in other entities and managed investment schemes where Group entities act as the responsible entity for the schemes. In applying the accounting policy for consolidation as stated in note 1(b), the Group exercises significant judgements to determine which entities and investment schemes are controlled and, therefore, are required to be consolidated. The Group has consolidated those entities determined as being controlled, with principal subsidiaries listed in note 30. For the interests in

managed investment schemes, the Group considers its relationship with the majority of the schemes is that of an agent rather than a principal. Where the relationship is that of an agent, the Group does not have the power to control. Further information about this assessment is stated in note 1(a).

For interests in other entities where the Group does not have control, the Group exercises significant judgements to determine whether it has significant influence over the entity or joint control of an arrangement. Where there is a joint arrangement, the Group further determines whether it is structured as a joint operation or a joint venture. The Group has determined as investments in associates those relationships where significant influence over another entity exists. The Group considers Calliden Group Limited (Calliden) an associate as the Group has significant influence even though it holds less than 20 percent of Calliden's voting rights. The Group has concluded that the joint arrangement investments in Certainty Financial, Next Rural Financial Management Pty Ltd and Lifestyle Manor Anglesea Pty Ltd (LMA) are joint ventures. The Group does not have power to control Certainty Financial and LMA even though it has a 70 percent and 51 percent ownership interests respectively. Detailed information about the investments in associates and joint ventures is disclosed in note 16.

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 Finance & Strategy. Group Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Compliance oversees compliance with controls and procedures and Finance & Strategy measures the quantitative aspects of the controls. The results of these reviews are reported to the Group Audit and Compliance Committee and the board.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: 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 investment will fluctuate as a result of movements in international exchange rates. The Group's main foreign exchange risk arises from its holding in foreign investment funds.

As at 30 June 2014, if the foreign exchange rates increase or decrease by 10 percent, 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:	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
+10% (2013: +10%)	(627)	(870)	(627)	(870)
-10% (2013: -10%)	809	1,055	809	1,055

(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 Group Investment Committee, the objective of which is to manage risk within acceptable limits.

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

The table below summarises the impact of increases/(decreases) of the securities prices on the Group's post tax profit for the year and on equity. The analysis is based on the assumption that the securities prices had increased/(decreased) by 10 percent at the end of the reporting period (2013: 10 percent) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the security prices.

	Impact on post-tax profit		Impact on equity	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Securities prices + 10% (2013: +10%)	6,826	4,126	6,826	4,126
Securities prices - 10% (2013: -10%)	(7,106)	(3,757)	(7,106)	(3,757)

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.

Notes to the consolidated financial statements

For the year ended 30 June 2014

3 Financial risk management (continued)

(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 2014 and 2013, the Group’s borrowings at variable rate were denominated in Australian Dollars.

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

	2014 \$’000	2013 \$’000
Financial assets		
Cash and cash equivalents	313,318	286,950
Financial assets at fair value through profit or loss	50,275	104,191
Loans and advances	501,832	444,525
	865,425	835,666
Financial liabilities		
Deposits	304,533	308,688
Development finance loans (iii)	52,736	22,473
Loan payable to related entity	5,100	2,800
Australian Unity Notes (i)	120,000	120,000
Subordinated capital notes (ii)	30,000	25,000
Interest rate swap, at notional principal amounts	(96,174)	(115,000)
	416,195	363,961
Net exposure	449,230	471,705

- (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 2014 of 6.26 percent (2013: 6.59 percent). As at 30 June 2014 and 2013, only the variable interest portion of \$60 million of the Notes were hedged via an interest rate swap.
- (ii) The subordinated capital notes carry a 3.00 percent fixed margin (2013: 4.90 percent) resulting in a total interest rate at 30 June 2014 of 5.71 percent (2013: 7.99 percent). Only the variable interest portion is hedged via an interest rate swap.
- (iii) Included in the development finance loans as at 30 June 2014 were \$32,706,000 for Carlton aged care facility and \$6,174,000 for Peninsula Grange aged care facility. As at 30 June 2014, \$20,000,000 of the Carlton loan facility was hedged via an interest rate swap. After the end of the reporting period, \$5,000,000 of the Peninsula Grange loan facility was hedged via an interest rate swap effective 25 July 2014.

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 2014 and 2013, 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	
	2014 \$’000	2013 \$’000	2014 \$’000	2013 \$’000
Judgements of reasonably possible movements:				
+ 0.25% (2013: + 0.25%)	377	9	377	9
- 0.25% (2013: -0.25%)	(377)	(9)	(377)	(9)

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.

(b) Credit risk

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

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

Trade and other receivables

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

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

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

Loans and advances

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

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired	Past due or impaired	Total
	High grade \$’000	Other grade \$’000	\$’000	\$’000	\$’000
At 30 June 2014					
Cash and cash equivalents	974,413	–	–	–	974,413
Trade receivables	563	97,378	5,181	515	103,637
Financial assets at fair value through profit or loss	391,515	969,215	–	–	1,360,730
Held-to-maturity investments	80,467	–	–	–	80,467
Loans and advances	536,185	66,380	10,251	498	613,314
Investments in associates and joint ventures	–	46,740	–	–	46,740
Other financial assets	–	302	–	–	302
	1,983,143	1,180,015	15,432	1,013	3,179,603
At 30 June 2013					
Cash and cash equivalents	1,017,336	–	–	–	1,017,336
Trade receivables	581	84,764	4,287	247	89,879
Financial assets at fair value through profit or loss	385,706	870,794	–	–	1,256,500
Held-to-maturity investments	69,736	–	–	–	69,736
Loans and advances	441,889	81,614	17,462	578	541,543
Investments in associates and joint ventures	–	42,783	–	–	42,783
Other financial assets	–	268	–	–	268
	1,915,248	1,080,223	21,749	825	3,018,045

Notes to the consolidated financial statements

For the year ended 30 June 2014

3 Financial risk management (continued)

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

Credit risk further arises in relation to irrevocable loan commitments provided to the customers of Building Society. The irrevocable loan commitments are binding contracts to extend credit to customers as long as no violation of any condition in the contracts. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved undrawn loans of \$9,753,000 (2013: \$11,841,000).

The Group provides financial guarantees to certain parties amounting to \$7,368,035 (2013: \$9,949,932). These financial guarantees are only provided in exceptional circumstances and are subject to specific board approval. The maximum credit risk exposure of the financial guarantees is the maximum amount that could be paid if the guarantee is called on.

Mortgage and policy loans held by the benefit funds managed by the Group do not expose the Group to credit risk as 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.

(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.

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

	Less than 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	Over 5 years \$'000	No specific maturity \$'000	Total \$'000
At 30 June 2014						
Trade and other payables	72,668	–	–	–	–	72,668
AU Notes	4,339	4,339	126,869	–	–	135,547
Subordinated capital notes	1,007	1,007	8,052	38,136	–	48,202
Development finance loan	1,219	1,219	56,509	–	–	58,947
Call deposits	305,029	–	–	–	–	305,029
Term deposits	225,106	51,917	18,669	–	–	295,692
Mortgage offset savings accounts	50,224	–	–	–	–	50,224
Retirement Village Investment Notes	15,450	16,436	42,715	5,592	–	80,193
Lease liability	–	–	13	–	–	13
Loan payable to related entity	5,134	–	–	–	–	5,134
Interest bearing liabilities	607,508	74,918	252,827	43,728	–	978,981
Benefit fund policy liabilities	97,211	88,611	–	–	1,699,106	1,884,928
Other liabilities	478,186	–	–	–	–	478,186
Total liabilities	1,255,573	163,529	252,827	43,728	1,699,106	3,414,763
At 30 June 2013						
Trade and other payables	79,782	–	–	–	–	79,782
AU Notes	4,553	4,553	136,315	–	–	145,421
Subordinated capital notes	25,000	–	–	–	–	25,000
Development finance loan	557	4,538	20,598	–	–	25,693
Call deposits	303,688	–	–	–	–	303,688
Term deposits	175,465	32,206	17,480	–	–	225,151
Mortgage offset savings accounts	37,220	–	–	–	–	37,220
Retirement Village Investment Notes	3,736	8,844	54,691	5,999	–	73,270
Lease liability	–	–	13	–	–	13
Loan payable to related entity	2,819	–	–	–	–	2,819
Interest bearing liabilities	553,038	50,141	229,097	5,999	–	838,275
Benefit fund policy liabilities	128,409	93,104	–	–	1,611,718	1,833,231
Other liabilities	421,219	–	5,651	–	–	426,870
Total liabilities	1,182,448	143,245	234,748	5,999	1,611,718	3,178,158

(d) Capital risk management

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

Capital management plays a central role in managing risk to create member value while 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 2014 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, the economic, operational and capital needs of the business.

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

(e) Insurance risk

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

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

Product design

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

Claims management

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

Insurance risk and experience monitoring

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

Prudential capital requirements

Private health insurers must comply with prudential capital requirements providing a safeguard against certain adverse experience. The board has

adopted a conservative approach by applying a target level of capital in excess of the prudential requirements.

Risk equalisation

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

Concentration of insurance risk

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

Ability to vary premium rates

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

Preventative health programs

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

(f) Operational risk management

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

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

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

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

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

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

Notes to the consolidated financial statements

For the year ended 30 June 2014

4 Fair value measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss
- Derivative financial instruments
- Available-for-sale financial assets (if any)
- Investment properties
- Land and buildings
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2014.

(a) Fair value hierarchy

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

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

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2014 and 2013 on a recurring basis. Comparative information for non-financial assets has not been provided as permitted by the transitional provisions of the new rules.

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

30 June 2013				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Fixed interest securities	–	334,094	–	334,094
Equities	–	743,028	–	743,028
Mortgage trusts	–	45,706	–	45,706
Property syndicates and trusts	–	81,471	–	81,471
Debt securities	–	52,201	–	52,201
Other financial assets	–	–	268	268
Total financial assets	–	1,256,500	268	1,256,768
Financial liabilities				
Interest rate swaps	–	3,157	–	3,157
Life investment contract policy liabilities	–	633,905	–	633,905
Total financial liabilities	–	637,062	–	637,062

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

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for the recurring fair value measurements during the year. The transfers in and out of level 3 measurements are summarised in note 4(c).

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

(i) Financial instruments

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

Specific valuation techniques used to value financial instruments include:

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

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

(ii) Investment properties

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

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

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

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

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

Development sites are initially recorded at cost. Subsequently the carrying value is measured against the present value of future cash flows, being the final estimated development value less the remaining cost of development, using a value in use calculation in order to determine fair value.

This comparison is reassessed at specific milestones during the development process. In the event that carrying value is greater than the present value of future cash flows, an impairment charge is made.

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

(iii) Land and buildings

The Group assigns the accredited independent valuers to obtain independent valuation for its land and buildings at least every three years. The most recent valuations were done in 2013 by CB Richard Ellis (V) Pty Ltd and in 2012 by Savills Valuations Pty Ltd and Charter Keck Cramer. Fair value is determined using the capitalisation of adjusted net profit approach, discounted cash flows and direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group. The independent valuations support the Group's carrying value as at 30 June 2014. All of the resulting fair value estimates are included in level 3 as explained in section (c) below.

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For the year ended 30 June 2014

4 Fair value measurements (continued)

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

The following table presents the changes in level 3 instruments for the financial year ended 30 June 2014:

	Other financial assets \$'000	Investment properties \$'000	Land and buildings \$'000	Total \$'000
Opening balance 1 July 2012	7,271	–	–	7,271
Disposals	(8,163)	–	–	(8,163)
Transfers to level 1 fair value hierarchy	1,160	–	–	1,160
Closing balance 30 June 2013	268	–	–	268
Opening balance 1 July 2013	268	–	–	268
Adoption of AASB 113	–	617,109	80,518	697,627
Acquisitions	–	61,369	46,762	108,131
Disposals	–	(1,580)	–	(1,580)
Depreciation	–	–	(1,306)	(1,306)
Transfers	–	(14,328)	14,328	–
Gain recognised in other income*	34	11,705	–	11,739
Closing balance 30 June 2014	302	674,275	140,302	814,879
*Included in the gain recognised in other income:				
Unrealised gain recognised in the profit or loss attributable to assets held at the end of the financial year	–	11,705	–	11,705

(i) Valuation inputs and relationships to fair value

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

Description	Fair value at 30 June 2014 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	674,275	Discount rate	10.0% - 14.0%	The higher the discount rate, the lower the fair value
		Capitalisation rate	12.7% - 12.8%	The higher the capitalisation rate, the lower the fair value
		Property growth rate	0.0% - 4.5%	The higher the property growth rate, the higher the fair value
Land and buildings	140,302	Discount rate	9.5% - 14.0%	The higher the discount rate, the lower the fair value
		Terminal yield	9.2% - 9.3%	The higher the terminal yield, the lower the fair value
		Capitalisation rate	9.0% - 13.5%	The higher the capitalisation rate, the lower the fair value
		Rental growth rate	3.6% - 3.7%	The higher the rental growth rate, the higher the fair value

(ii) Valuation processes

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

The Group engages independent accredited valuers at least every three years to determine the fair value of the land and buildings classified as property, plant and equipment and other non-owner occupied investment properties.

(d) Fair values of other financial instruments

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet.

These had the following fair values as at 30 June 2014:

	Carrying amount \$'000	Fair value \$'000
30 June 2014		
Current and non-current assets		
Loans to associate	–	–
Loans to related entities	30,653	30,653
Mortgage loans	551,609	552,188
Personal loans	26,683	26,683
Advances	4,112	3,709
	613,057	613,233
Current and non-current borrowings		
Australian Unity Notes	120,000	124,320
Loan establishment costs	(2,398)	(2,398)
Call deposits	304,533	304,533
Development finance loans	52,736	48,236
Lease liabilities	15	15
Loan payable to related entity	5,100	5,100
Mortgage offset savings accounts	50,224	50,224
Retirement Village Investment Notes	70,374	70,472
Subordinated capital notes	30,000	27,906
Term deposits	291,243	290,823
	921,827	919,231

30 June 2013

Current and non-current assets		
Loans to associate	203	203
Loans to related entities	29,593	29,593
Mortgage loans	473,364	473,830
Personal loans	35,461	35,461
Advances	2,745	2,425
	541,366	541,512

Current and non-current borrowings		
Australian Unity Notes	120,000	124,000
Loan establishment costs	(3,738)	(3,738)
Call deposits	303,688	303,688
Development finance loans	22,473	21,320
Lease liabilities	13	13
Loan payable to related entity	2,800	2,800
Mortgage offset savings accounts	37,220	37,220
Retirement Village Investment Notes	61,780	62,532
Subordinated capital notes	25,000	25,000
Term deposits	221,330	220,946
	790,566	793,781

The carrying amounts of trade receivables, held-to-maturity investments and trade payables are assumed to approximate their fair values due to their short term nature. The fair values of loans, advances and borrowings disclosed above are estimated by discounting the future contractual cash flows at the current applicable market interest rate. These assets and liabilities are categorised under level 3 in the fair value hierarchy.

Notes to the consolidated financial statements

For the year ended 30 June 2014

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

(b) Segment information

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

	Corporate Functions and Eliminations \$'000	Allied Health \$'000	Health Insurance \$'000	Investments \$'000	Personal Financial Services \$'000	Retirement Living \$'000	Total \$'000
2014							
Total segment revenue	(16,566)	34,699	754,449	103,208	39,841	89,209	1,004,840
Inter-segment revenue	10,248	(9,544)	–	–	(704)	–	–
Revenue from external customers	(6,318)	25,155	754,449	103,208	39,137	89,209	1,004,840
Adjusted EBITDA	(26,147)	4,801	38,766	13,757	2,333	21,325	54,835
Depreciation and amortisation							(16,630)
Interest expense							(20,924)
Investment income							17,796
Income tax expense							(5,432)
Profit after income tax							29,645
Share of profit after tax from associates and joint ventures (included in adjusted EBITDA)							2,969
Total segment assets include:							
Income producing assets	15,186	2,319	327,930	761,104	2,090	13,805	1,122,434
Working capital assets	9,487	3,489	53,355	33,461	5,804	4,902	110,498
Non-interest bearing assets	111,093	2,162	9,224	49,157	26,041	351,453	549,130
Total segment assets	135,766	7,970	390,509	843,722	33,935	370,160	1,782,062
Total segment liabilities include:							
Borrowings and net inter segment lending	130,704	–	20,000	647,584	–	125,936	924,224
Working capital liabilities	22,001	1,105	204,140	25,815	3,235	13,402	269,698
Non-interest bearing liabilities	24,413	203	9,474	3,042	2,826	39,836	79,794
Total segment liabilities	177,118	1,308	233,614	676,441	6,061	179,174	1,273,716

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2013 is as follows:

	Corporate Functions and Eliminations \$'000	Allied Health \$'000	Health Insurance \$'000	Investments \$'000	Personal Financial Services \$'000	Retirement Living \$'000	Total \$'000
2013							
Total segment revenue	(15,081)	27,436	707,780	111,656	33,688	73,069	938,548
Inter-segment revenue	10,311	(6,932)	(1,102)	(1)	(358)	(1,918)	–
Revenue from external customers	(4,770)	20,504	706,678	111,655	33,330	71,151	938,548
Adjusted EBITDA	(29,367)	3,850	43,968	15,346	2,090	12,627	48,514
Depreciation and amortisation							(17,248)
Interest expense							(23,379)
Investment income							27,476
Income tax expense							(5,953)
Profit after income tax							29,410

Share of profit after tax from associates and joint ventures (included in adjusted EBITDA)

2,799

Total segment assets include:							
Income producing assets	13,033	1,395	319,842	677,887	2,067	15,208	1,029,432
Working capital assets	14,027	1,744	52,528	25,478	2,675	2,458	98,910
Non-interest bearing assets	100,716	745	8,876	51,824	24,805	307,760	494,726
Total segment assets	127,776	3,884	381,246	755,189	29,547	325,426	1,623,068
Total segment liabilities include:							
Borrowings and net inter segment lending	168,281	–	15,000	539,908	–	71,115	794,304
Working capital liabilities	24,015	1,095	193,621	28,397	9,126	12,665	268,919
Non-interest bearing liabilities	22,451	–	7,969	2,685	–	46,821	79,926
Total segment liabilities	214,747	1,095	216,590	570,990	9,126	130,601	1,143,149

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2014

5 Segment information (continued)

Segment revenue reconciles to total revenue as follows:

	2014 \$'000	2013 \$'000
Total segment revenue	1,004,840	938,548
Dividends and distributions (note 7)	5,595	8,426
Investment income (note 7)	8,129	24,642
Accommodation bond interest reclassification	(2,798)	(2,778)
Building society investment gains in adjusted EBITDA	(3)	(484)
Investment revaluation included in segment revenue	–	(5,008)
Management fee rebate and services reclassification	(426)	(1,984)
Share of net profit of associates and joint ventures	(735)	(1,109)
Rental income	340	321
Retirement village revaluation and other reclassification	153	527
Joint venture revenue reclassification	1,135	–
Other	(47)	3
Revenue attributable to members of Australian Unity Limited (note 39)	1,016,183	961,104
Revenue from benefit funds (note 39)	181,249	180,683
Total revenue and other income	1,197,432	1,141,787

(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:

	2014 \$'000	2013 \$'000
Adjusted EBITDA	54,835	48,514
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 8)	(15,344)	(15,391)
Net gain/(loss) on disposal of assets	73	(282)
Merger and acquisition expense	(1,250)	(1,392)
Other	(109)	(183)
	(16,630)	(17,248)
Interest expense:		
Finance costs (note 8)	(18,140)	(19,316)
Accommodation bond interest classification	(2,798)	(2,778)
Joint venture interest revaluation included in adjusted EBITDA	–	(959)
Other	14	(326)
	(20,924)	(23,379)
Investment income:		
Dividends and distributions (note 7)	5,595	8,426
Investment income (note 7)	8,129	24,642
Impairment reversal of investments in associates and joint ventures	4,075	205
Building society investment losses in adjusted EBITDA	(3)	(484)
Investment revaluation included in adjusted EBITDA	–	(5,008)
Other	–	(303)
	17,796	27,478
Profit before income tax attributable to members of Australian Unity Limited (note 39)	35,077	35,365
Profit before income tax of benefit funds (note 39)	24,226	27,558
Profit before income tax	59,303	62,923

(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 and joint ventures, intercompany investments and other non-current assets.

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:

	2014 \$'000	2013 \$'000
Segment assets	1,782,062	1,623,068
Resident liabilities and refundable lease deposits (note 24)	434,877	384,429
GST payable	(1,262)	(1,287)
Resident accounts recurrent charge	1,361	1,149
Receivables reclassified	(1,366)	(69)
Retirement Village Property Fund consolidation	41,383	36,723
Loan establishment costs reclassified	(2,398)	–
Other – reclassification between assets and liabilities	(8,097)	(23,735)
Other – netting of eligible deferred tax balances	(33,520)	(31,837)
Other	29	(11)
Total assets attributable to members of Australian Unity Limited	2,213,069	1,988,430
Benefit fund assets (note 38)	1,922,928	1,855,356
Netting of eligible deferred tax balances	(24,306)	(11,248)
Total assets	4,111,691	3,832,538

(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:

	2014 \$'000	2013 \$'000
Segment liabilities	1,273,716	1,143,149
Resident liabilities and refundable lease deposits (note 24)	434,877	384,429
GST payable	(1,262)	(1,287)
Resident accounts recurrent charge	1,361	1,149
Receivables reclassified	(1,366)	(69)
Retirement Village Property Fund consolidation	41,383	36,723
Loan establishment costs reclassified	(2,398)	–
Other – reclassification between assets and liabilities	(8,097)	(23,735)
Other – netting of eligible deferred tax balances	(33,520)	(31,837)
Other	35	–
Total liabilities attributable to members of Australian Unity Limited	1,704,729	1,508,522
Benefit fund liabilities (note 38)	38,000	22,125
Netting of eligible deferred tax balances	(24,306)	(11,248)
Benefit fund policy liabilities (note 37)	1,884,928	1,833,231
Total liabilities	3,603,351	3,352,630

Notes to the consolidated financial statements

For the year ended 30 June 2014

6 Business combination

(a) Remedy Healthcare Group Pty Ltd (Remedy)

In August 2013, Remedy, a wholly-owned entity of the Group, acquired the remaining 50 percent of issued shares in Health Providers Australia Pty Ltd (trading as Rehability) for \$855,700. This acquisition has increased the Group's ownership interest from 50 percent to 100 percent of the investee's issued shares.

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

Better Home Care Pty Ltd

In November 2012, Better Home Care Pty Ltd (BHC) acquired the business assets of Ultima Services (Aust) Pty Ltd (trading as Better at Home Seniors Care) for \$2,503,000, including contingent consideration of \$753,000 which was payable in three deferred payments conditional upon the achievements of certain financial targets within the following three years. From the acquisition, the Group reported an intangible asset of \$2,475,000 in the financial statements for the year ended 30 June 2013. In the first annual performance review in November 2013, it was concluded that the financial targets were not likely to be achieved. Following this, the vendor confirmed that the potential future payments in relation to the business acquisition were no longer payable. As a result, the \$753,000 liability was written off against the profit or loss. The acquisition accounting was finalised in the current financial year with the recognition of goodwill of \$1,225,000 and customer contracts of \$1,250,000 with a finite life of 10 years.

Big Sky Financial Planning Pty Ltd

In June 2013, Big Sky Financial Planning Pty Ltd acquired the business assets of HN Financial Partners Pty Ltd (HNFP) for \$4,122,000. The purchase consideration consisted of cash amounting to \$2,913,000 paid in July 2013 and a \$1,209,000 contingent consideration. The amount of the contingent consideration is conditional upon the achievement of recurring revenue target during the period from 1 August 2013 to 31 July 2014. If the recurring revenue lies within the range of \$1,558,000 and \$1,722,000 then the amount payable will be \$1,209,000. If the recurring revenue is below or above this prescribed range, the amount payable will be reduced or increased respectively. Assuming that the contingent consideration will be \$1,209,000, the Group reported goodwill/intangible assets of \$4,030,000 in the financial statements for the year ended 30 June 2013. Based on the current operational results, the recurring revenue for the period under review is estimated to be within the prescribed target range. Accordingly, it is likely that the contingent consideration will be \$1,209,000. The acquisition accounting was finalised in the current financial year with the recognition of \$4,030,000 intangible assets (customer lists) with a finite life of 20 years.

7 Revenue and other income

	2014 \$'000	2013 \$'000
Commission income	42,160	36,268
Dental sales	22,079	19,952
Dividends and distributions	5,595	8,426
Fair value gains on investment property	11,705	10,281
Health insurance premium revenue (note 36)	754,442	706,315
Interest income of building society	31,342	34,512
Investment income	8,129	24,642
Management fees revenue	63,613	61,552
Rental income	2,703	2,386
Retirement village fees and subsidies	69,349	53,931
Revenue of benefit funds (note 37)	181,249	180,683
Other income	5,066	2,839
	1,197,432	1,141,787

8 Expenses

	2014 \$'000	2013 \$'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	2,451	2,107
Commission expense	46,543	45,874
Communication costs	4,800	4,357
Computer and equipment costs	11,592	10,561
Depreciation and amortisation expense	15,344	15,391
Employee benefits expense	156,845	147,269
Expenses in relation to benefit funds (note 37)	157,023	153,125
Financial and insurance costs	3,395	3,853
Fund manager and administration fees	11,295	12,284
Health insurance claims expense	646,853	593,038
Impairment reversal of investment in associates and joint ventures	(3,447)	(205)
Interest expense of building society	15,901	18,990
Legal and professional fees	10,585	10,907
Marketing expenses	14,490	13,953
Net risk equalisation trust fund recoveries	(27,745)	(22,370)
Occupancy costs	10,341	10,150
Other direct expenses	30,161	26,124
Other expenses	18,296	18,489
	1,124,723	1,063,897
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	1,306	1,049
Leasehold improvements	1,615	2,192
Plant and equipment	1,930	2,096
Total depreciation	4,851	5,337
Amortisation		
Computer software	9,042	8,798
Management rights	1,451	1,256
Total amortisation	10,493	10,054
Total depreciation and amortisation	15,344	15,391
Finance costs		
Interest and finance charges	21,030	21,073
Amount capitalised	(2,890)	(1,757)
Finance costs expensed	18,140	19,316

9 Income tax expense

	2014 \$'000	2013 \$'000
(a) Income tax expense		
Current tax	(8,294)	(2,109)
Current tax - benefit funds	8,294	13,881
Deferred tax	15,126	11,551
Deferred tax - benefit funds	14,856	15,405
Adjustments for current tax of prior periods	(1,400)	(3,487)
Adjustments for current tax of prior periods - benefit funds	1,076	(1,728)
	29,658	33,513
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (note 19)	647	13,228
Increase in deferred tax liabilities (note 26)	29,335	13,728
	29,982	26,956

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For the year ended 30 June 2014

9 Income tax expense (continued)

	2014 \$'000	2013 \$'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	59,303	62,923
Less: profit in benefit funds	(24,226)	(27,558)
	35,077	35,365
Tax at the Australian tax rate of 30% (2013: 30%)	10,523	10,610
Non-assessable income	(3,273)	(5,802)
Other assessable amounts	686	2,999
Non-deductible expenditure	1,176	1,882
Other deferred tax adjustments	(2,670)	(2,123)
Tax in benefit funds	24,226	27,558
Tax credits	(998)	(1,188)
Over provision in prior years	(12)	(423)
Income tax expense	29,658	33,513

(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.

10 Current assets - Cash and cash equivalents

	2014 \$'000	2013 \$'000
Cash at bank and on hand	350	1,049
Bank balances	52,037	37,010
Deposits at call	922,026	979,277
	974,413	1,017,336

(a) Deposits at call

Deposits at call include \$769,526,000 (2013: \$547,938,000) 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.

11 Current assets - Trade and other receivables

	2014 \$'000	2013 \$'000
Net trade receivables		
Trade receivables	36,736	37,535
Provision for impairment of trade receivables (a)	(515)	(247)
	36,221	37,288
Prepayments		
Deferred acquisition costs	8,060	5,928
Management fees prepayments	6,958	6,305
Prepayments	5,153	5,884
	20,171	18,117
Other receivables		
GST receivable	–	607
Interest receivable	1,151	1,507
Property deposits	–	888
Risk equalisation trust fund receivable	13,200	11,300
Seed capital	5,947	5,997
Sundry debtors	26,432	13,928
	46,730	34,227
	103,122	89,632

(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 2014, current trade receivables of the Group with a nominal value of \$515,000 (2013: \$247,000) were impaired. An impairment provision of \$515,000 (2013: \$247,000) has been recognised.

(b) Past due but not impaired

At 30 June 2014, trade receivables of \$5,181,000 (2013: \$4,287,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

(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.

12 Current assets - Loans and advances

	2014 \$'000	2013 \$'000
Loan to associate	–	203
Mortgage loans	16,552	15,609
Personal loans	7,766	7,991
Provision for impairment	(257)	(177)
	24,061	23,626

(a) Mortgage loans

The mortgage loans are secured on real property. The loans earn interest at annual interest rates between 4.12 percent and 9.00 percent (2013: between 4.81 percent and 9.34 percent).

(b) Personal loans

The personal loans earn interest at annual fixed rates between 5.88 percent and 14.10 percent (2013: between 5.80 percent and 13.78 percent).

Notes to the consolidated financial statements

For the year ended 30 June 2014

12 Current assets - Loans and advances (continued)

(c) Past due but not impaired

At 30 June 2014, loans and advances of \$369,000 (2013: \$928,000) were past due but not impaired. These relate to a number of borrowers from whom there is no recent history of default.

(d) 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:

	2014 \$'000	2013 \$'000
Securities held by benefit funds	1,200,836	1,092,225
Securities held in funds managed by related entities	159,894	164,275
	1,360,730	1,256,500

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the profit or loss.

(a) Securities held by benefit funds comprise the following:

	2014 \$'000	2013 \$'000
Fixed interest securities	267,986	286,042
Equities	825,855	707,937
Mortgage trusts	38,739	31,351
Property syndicates and trusts	32,120	50,925
Debt securities	36,136	15,970
	1,200,836	1,092,225

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

	2014 \$'000	2013 \$'000
Fixed interest securities	50,659	48,052
Equities	35,261	35,091
Mortgage trusts	8,537	14,355
Property syndicates and trusts	28,350	30,546
Debt securities	37,087	36,231
	159,894	164,275

(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:

	2014 \$'000	2013 \$'000
Current	1,326,143	1,213,034
Non-current	34,587	43,466
	1,360,730	1,256,500

(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 4.

14 Held-to-maturity investments

	2014 \$'000	2013 \$'000
Bank bills	55,045	23,269
Term deposits	25,422	46,467
	80,467	69,736

Fair value and credit risk

Due to the short term nature of these investments, 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 the investments. Information about the Group's exposure to credit risk and the credit quality in relation to these investments is provided in note 3.

15 Non-current assets - Loans and advances

	2014 \$'000	2013 \$'000
Loans to related entities	30,653	29,593
Mortgage loans	535,057	457,755
Personal loans	19,174	27,647
Advances	4,112	2,745
	588,996	517,740

Further information relating to loans to related parties is set out in note 29.

(a) 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 \$8,653,595 (2013: \$7,593,919) which accrue interest on a monthly basis at an annual fixed rate of 15 percent (2013: 15 percent) and fixed rate loans of \$21,999,042 (2013: \$21,999,042) which accrue interest on a monthly basis at an annual fixed rate of 12 percent (2013: 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 2014, the related entities have a funding facility from BankWest expiring on 30 June 2015.

(b) 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 19 June 2044 and earn interest at annual interest rates between 4.12 percent and 7.55 percent (2013: between 4.81 percent and 9.34 percent).

(c) Personal loans

The personal loans mature at various dates up to 9 July 2022 and earn interest at annual rates between 5.88 percent and 14.10 percent (2013: between 5.80 percent and 13.78 percent).

(d) Past due but not impaired

At 30 June 2014, loans and advances of \$9,882,000 were past due but not impaired (2013: \$16,534,000). These relate to a number of borrowers from whom there is no recent history of default.

(e) Fair values

The carrying amounts and fair values of current and non-current loans and advances are provided in note 4.

(f) Risk exposure

Information about the Group's exposure to credit risk and interest rate risk is provided in note 3.

Notes to the consolidated financial statements

For the year ended 30 June 2014

16 Non-current assets - Investments in associates and joint ventures

Set out below are the associates and joint ventures of the Group as at 30 June 2014. The Group directly holds ownership interest in the ordinary shares of these entities. The proportion of ownership interest is the same as the proportion of voting rights held, unless otherwise stated. All the investments in the associates and joint ventures are accounted for using the equity method. Apart from Calliden which is an associate, the other entities are joint ventures of the Group. Each of these associates and joint ventures is incorporated in Australia, except for Seres Asset Management Limited which is incorporated in Hong Kong.

(a) Carrying amounts

Name of entity	Principal activity	Ownership interest		Value of investment	
		2014 %	2013 %	2014 \$'000	2013 \$'000
Listed					
Calliden Group Limited (i) (Calliden)	General insurance	13	13	10,249	6,183
Unlisted					
Acorn Capital Limited	Investment management	46	48	3,854	3,444
Altius Asset Management Pty Ltd	Investment management	47	47	1,601	1,728
Certainty Financial (ii)	Financial planning and finance broking	70	70	21,436	21,273
FedInvest Pty Ltd	Investment platform	50	50	652	239
Health Providers Australia Pty Ltd (iii)	Rehabilitative health services	–	50	–	469
KNS Essential Care Pty Ltd	Nursing care services	50	–	400	–
Lifestyle Manor Anglesea Pty Ltd (iv)	Property development	51	51	500	500
Next Rural Financial Management Pty Ltd	Financial planning and finance broking	50	50	360	371
Platypus Asset Management Pty Limited	Investment management	50	50	1,505	1,618
Seres Asset Management Limited (Seres)	Investment management	46	46	5,351	5,542
Vianova Unit Trust	Investment management	50	50	237	938
Wingate Asset Management Pty Limited	Investment management	44	44	595	478
				46,740	42,783

- (i) The Group nominates one member to the Calliden board of directors and the Group entities distribute Calliden insurance products and provide Calliden with some office accommodation on commercial terms. As the Group has significant influence over Calliden, the investment is recognised as an investment in 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. As these 'Joint Ventures' are unincorporated tax law partnerships, the interests held by the Group represents an interest in the assets of the 'Joint Ventures'. 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 can be exercised any time after 1 January 2015 and have no expiry date.
- (iii) In August 2013, the Group acquired the remaining 50 percent of issued shares in Health Providers Australia Pty Ltd. This entity has become a wholly-owned subsidiary of the Group (refer to notes 6 and 30).
- (iv) 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.

(b) Fair value of listed investments in associates and joint ventures

	2014 \$'000	2013 \$'000
Calliden Group Limited	10,851	9,043

(c) Summarised financial information of significant associates and joint ventures

The table below provides summarised financial information for associates and joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the most recent financial statements of the relevant associates and joint ventures and not the Group's share of those amounts. They have been amended, if necessary, to reflect adjustments made by the entity when using the equity method.

Summarised balance sheet	Certainty Financial (joint venture)		Calliden* (associate)	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current assets				
Cash and cash equivalents	2,679	2,393	28,589	24,504
Other current assets	406	422	155,040	223,379
Total current assets	3,085	2,815	183,629	247,883
Non-current assets	418	464	106,345	112,951
Current liabilities				
Financial liabilities (excluding trading payables)	-	-	-	-
Other current liabilities	537	683	33,610	45,900
Total current liabilities	537	683	33,610	45,900
Non-current liabilities				
Financial liabilities (excluding trade payables)	-	-	-	-
Other non-current liabilities	218	188	157,398	219,083
Total non-current liabilities	218	188	157,398	219,083
Net assets	2,748	2,408	98,966	95,851

* Calliden is an ASX listed company with its financial year ending on 31 December each year. Up to the date of this report, no financial report of Calliden for the half year ended 30 June 2014 was publicly available. The 2014 balance sheet information above represented the amounts as at 31 December 2013 as published in Calliden's annual report. The comparative information in 2013 represented the amounts as at 31 December 2012 as published in Calliden's annual report.

Reconciliation to carrying amounts:	Certainty Financial (joint venture)		Calliden* (associate)	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Opening net assets 1 July*	2,408	1,641	95,851	94,451
Profit/(loss) for the period	6,040	4,982	6,154	1,089
Other comprehensive income	-	-	(999)	311
Dividends paid	(5,700)	(4,215)	(2,040)	-
Closing net assets	2,748	2,408	98,966	95,851
Group's share in net assets (%)	70	70	13	13
Group's share in net assets (\$)	1,924	1,686	12,866	12,461
Group's share in net assets over/(under) the carrying amount	19,512	19,587	(2,617)	(6,278)
Carrying amount	21,436	21,273	10,249	6,183
Summarised statement of comprehensive income				
Revenue	10,025	9,220	235,805	366,578
Interest income	41	37	4,489	5,672
Depreciation and amortisation	(20)	(27)	(4,270)	(4,622)
Interest expense	-	-	-	-
Income tax expense	(196)	(151)	-	-
Profit from continuing operations	6,040	4,982	6,154	1,089
Profit from discontinued operations	-	-	-	-
Profit for the period	6,040	4,982	6,154	1,089
Other comprehensive income	-	-	(999)	311
Total comprehensive income	6,040	4,982	5,155	1,400
Dividends received from associates and joint venture entities	3,920	2,881	814	121

* The 2014 financial information above was prepared based on the published financial report for the year ended 31 December 2013 with comparative amounts for the year ended 31 December 2012 as published in the annual reports of Calliden.

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For the year ended 30 June 2014

16 Non-current assets - Investments in associates and joint ventures (continued)

(d) Summarised financial information of insignificant joint ventures

	2014 \$'000	2013 \$'000
Carrying amount at the beginning of the financial year	15,055	15,327
Aggregate amounts of the Group's share of:		
Profit/(loss) from continuing operations	444	379
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	444	379

(e) Movements in carrying amounts

	2014 \$'000	2013 \$'000
Carrying amount at the beginning of the financial year	42,783	37,552
Investments acquired during the year	3,983	5,129
Impairment reversal (i)	3,447	205
Share of net profits after income tax	4,734	4,349
Dividends received	(6,336)	(4,452)
Disposals	(1,871)	–
Carrying amount at the end of the financial year	46,740	42,783

(i) The impairment reversal included a reversal of impairment loss in the investment in Calliden of \$3,847,000 (2013: \$205,000). Prior to 2013, provisions for impairment losses were raised for the investment in Calliden due to declining value. Improvements in the operational results of Calliden have increased the value of the investment.

17 Non-current assets - Property, plant and equipment

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
At 1 July 2012					
Cost or fair value	–	–	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
Year ended 30 June 2013					
Opening net book amount	25,512	33,292	11,264	3,228	73,296
Additions	–	21,685	2,959	1,172	25,816
Acquisition of business	–	–	16	10	26
Disposals	–	(5)	(107)	(197)	(309)
Other transfers	–	1,083	(3,064)	1,981	–
Depreciation charge	–	(1,049)	(2,096)	(2,192)	(5,337)
Closing net book amount	25,512	55,006	8,972	4,002	93,492
At 30 June 2013					
Cost or fair value	25,512	64,891	28,470	23,021	141,894
Accumulated depreciation	–	(9,885)	(19,498)	(19,019)	(48,402)
Net book amount	25,512	55,006	8,972	4,002	93,492
Year ended 30 June 2014					
Opening net book amount	25,512	55,006	8,972	4,002	93,492
Additions	–	46,762	3,068	662	50,492
Acquisition of subsidiary	–	–	33	30	63
Disposals	–	–	(32)	–	(32)
Net transfers from intangible assets	–	–	18	–	18
Transfers from/(to) investment properties	(6,759)	21,087	–	–	14,328
Other transfers	(2,320)	2,320	(771)	771	–
Depreciation charge	–	(1,306)	(1,930)	(1,615)	(4,851)
Closing net book amount	16,433	123,869	9,358	3,850	153,510
At 30 June 2014					
Cost or fair value	16,433	135,060	30,561	24,484	206,538
Accumulated depreciation	–	(11,191)	(21,203)	(20,634)	(53,028)
Net book amount	16,433	123,869	9,358	3,850	153,510

(a) Valuations of land and buildings

The Group generally obtains an independent valuation for its land and buildings at least every three years.

The Group engaged accredited independent valuers to determine the fair value of its land and buildings. It engaged CB Richard Ellis (V) Pty Ltd in 2013, and Savills Valuations Pty Ltd and Charter Keck Cramer in 2012. 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:

	2014 \$'000	2013 \$'000
Land		
Cost	15,152	24,231
Net book amount	15,152	24,231
Buildings		
Cost	131,851	61,682
Accumulated depreciation	(13,267)	(10,441)
Net book amount	118,584	51,241

18 Non-current assets - Investment properties

	2014 \$'000	2013 \$'000
At fair value		
Balance at the beginning of the financial year	617,109	586,565
Acquisitions	61,369	31,773
Disposals	(1,580)	(11,810)
Net fair value movements	11,705	10,281
Transfers to owner occupied property	(14,328)	–
Transfer from intangible assets	–	300
Balance at the end of the financial year	674,275	617,109

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

	2014 \$'000	2013 \$'000
Revenue	35,336	31,772
Expenses	(24,413)	(21,415)
Changes in fair value recognised in profit or loss	11,705	10,281
	22,628	20,638

(b) Valuation basis

Investment properties comprise the Group's interests in retirement village independent living units, development sites and other non-owner occupied property. A related party, not part of the wholly-owned Group, had an interest in the Victoria Grange aged care facility until May 2014. 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 17).

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:

- current prices in an active market for properties of a similar nature; and
- 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.

Notes to the consolidated financial statements

For the year ended 30 June 2014

18 Non-current assets - Investment properties (continued)

Fair value of the Victoria Grange aged care facility and other non-owner occupied property was 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.

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (refer to note 1(x)) and sold to a retirement village operator.

(c) Summarised information of investment properties

Investments in properties are held as follows:

	2014 \$'000	2013 \$'000
Retirement village independent living units	412,297	392,189
Retirement village property funds	60,953	52,373
Residential aged care facilities	–	23,041
Development sites	196,411	144,895
Non-owner occupied property	4,614	4,611
	674,275	617,109

19 Non-current assets - Deferred tax assets

	2014 \$'000	2013 \$'000
The balance comprises temporary differences attributable to:		
Accrued expenses	7,537	5,423
Fixed assets	7,683	7,588
Capitalised expenditure	1,622	1,932
Investment in associates & joint ventures	173	1,648
Other assessable items	5,788	2,479
Policy bonus credits	18,811	14,191
Provisions	8,212	7,632
Risk Equalisation Trust Fund	2,493	2,249
Tax losses	4,231	3,812
Unrealised losses	1,276	3,202
Total deferred tax assets	57,826	50,156
Set-off of deferred tax liabilities pursuant to set-off provisions (note 26)	(57,826)	(41,484)
Net deferred tax assets	–	8,672
Movements		
Balance at the beginning of the financial year	50,156	60,627
Charged to the income statement (note 9)	(647)	(13,228)
Charged to other comprehensive income	(9)	(118)
Other transfers	8,326	2,875
Balance at the end of the financial year	57,826	50,156

20 Non-current assets - Intangible assets

	Goodwill \$'000	Management rights \$'000	Computer software \$'000	Aged care bed licences \$'000	Total \$'000
At 1 July 2012					
Cost	10,410	34,982	81,006	10,740	137,138
Accumulated amortisation	–	(4,098)	(45,858)	–	(49,956)
Net book amount	10,410	30,884	35,148	10,740	87,182
Year ended 30 June 2013					
Opening net book amount	10,410	30,884	35,148	10,740	87,182
Acquisition of business	1,225	5,280	2	–	6,507
Additions	–	107	9,363	–	9,470
Disposals	–	–	(356)	–	(356)
Transfer to investment properties	(300)	–	–	–	(300)
Amortisation charge	–	(1,256)	(8,798)	–	(10,054)
Closing net book amount	11,335	35,015	35,359	10,740	92,449
At 30 June 2013					
Cost	11,335	40,368	86,725	10,740	149,168
Accumulated amortisation	–	(5,353)	(51,366)	–	(56,719)
Net book amount	11,335	35,015	35,359	10,740	92,449
Year ended 30 June 2014					
Opening net book amount	11,335	35,015	35,359	10,740	92,449
Acquisition of subsidiaries	2,512	737	1	–	3,250
Additions	–	430	16,183	–	16,613
Net transfers from property, plant and equipment	–	–	(18)	–	(18)
Amortisation charge	–	(1,451)	(9,042)	–	(10,493)
Closing net book amount	13,847	34,731	42,483	10,740	101,801
At 30 June 2014					
Cost	13,847	40,678	102,891	10,740	168,156
Accumulated amortisation	–	(5,947)	(60,408)	–	(66,355)
Net book amount	13,847	34,731	42,483	10,740	101,801

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 2014, the Group held 231 purchased licences and 446 granted licences (2013: 231 purchased licences and 446 granted licences).

(a) Impairment tests for goodwill and management rights

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

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

	2014 \$'000	2013 \$'000
Healthcare	3,067	1,312
Retirement Living	11,637	10,206
Investments	31,200	32,276
Personal Financial Services	2,674	2,556
	48,578	46,350

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

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

The discount rate of 8.70 percent applied to cash flow projections represents the Group's weighted average cost of capital (2013: 9.00 percent). A 2.90 percent growth rate (2013: 2.50 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 14.20 percent per annum would not cause the recoverable amount of goodwill to fall below its carrying amount.

Notes to the consolidated financial statements

For the year ended 30 June 2014

21 Current liabilities - Trade and other payables

	2014 \$'000	2013 \$'000
Trade payables	27,706	20,961
Risk equalisation trust fund payable	6,070	5,686
Accrued expenses	34,910	48,837
GST payable	70	-
Other payables	3,912	4,298
	72,668	79,782

(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 trade and other payables are set out in note 3.

22 Current liabilities - Interest bearing liabilities

	2014 \$'000	2013 \$'000
Unsecured		
Call deposits	304,533	303,688
Term deposits	274,144	205,778
Mortgage offset savings accounts	50,224	37,220
Retirement Village Investment Notes	27,297	7,727
Development finance loans	-	3,981
Loan payable to related entity	5,100	2,800
Subordinated capital notes	-	25,000
Total unsecured current borrowings	661,298	586,194

(a) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2014, this rate amounted to between nil percent and 4.25 percent (2013: between nil percent and 4.50 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 2014 ranging between 2.40 percent and 6.75 percent (2013: between 2.75 percent and 8.09 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 (RVIN)

The balance represents the current portion of Retirement Village Investment Notes (RVIN). Refer to note 25 for further information.

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	2014 \$'000	2013 \$'000
Series 1 RVIN	3	30 November 2013	8.25%	-	1,286
	4	30 November 2014	8.25%	8,581	-
Series 2 RVIN	3	31 December 2014	8.25%	4,118	-
	4	31 March 2015	8.00%	2,909	-
Series 3 RVIN	1	31 March 2014	8.25%	-	120
	2	30 June 2014	8.25%	-	498
	3	31 December 2014	8.25%	130	-
	5	30 June 2014	8.50%	-	5,823
	6	31 March 2015	8.00%	4,514	-
	7	30 June 2015	7.50%	7,045	-
Total				27,297	7,727

(e) Development finance loans

The 2013 development finance loan represented the bank loan facility for the development of a retirement village site in Vermont South, Victoria (Victoria Grange). Refer to note 25 for further details of this loan.

(f) Loan payable to related entity

The loan payable to related entity matures on 31 August 2014 and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 2 percent. At 30 June 2014 this rate amounted to 4.65 percent (2013: 4.05 percent).

(g) Subordinated capital notes

The 2013 balance represented subordinated capital notes issued on 11 July 2008 with initial maturity of 10 years. The Group repaid the notes on 11 July 2013. Refer to note 25 for further details.

(h) Risk exposures

Details of the Group's exposure to risks arising from current interest bearing liabilities are set out in note 3.

(i) Fair value disclosures

The fair value of borrowings are set out in note 4.

23 Current liabilities - Provisions

	2014 \$'000	2013 \$'000
Employee benefits	15,180	14,019
Outstanding claims	57,274	51,012
Other provisions	5,022	3,512
	77,476	68,543

(a) Outstanding claims provision

Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic cost of which will arise in a later period. Claims reported but not yet paid are included as provisions. Claims provisions are determined on an actuarial basis and amounts paid or payable are recognised as part of expenses in the profit or loss. Refer to note 36 for the movements in outstanding claims provision.

(b) Other provisions

Other provisions relate to capital maintenance, provision for legal fees and general provisions.

24 Current liabilities - Other current liabilities

	2014 \$'000	2013 \$'000
Unearned income	115,934	113,472
Refundable lease deposits	84,144	72,525
Resident loan liabilities	392,178	348,694
Interest rate swaps	-	349
Others	3,790	11,024
	596,046	546,064

(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 18. 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) Interest rate swaps

The 2013 balance represented the current portion of interest rate swaps liability.

(e) Fair value

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value.

(f) Risk exposures

Details of the Group's exposure to risk arising from other current liabilities are set out in note 3.

Notes to the consolidated financial statements

For the year ended 30 June 2014

25 Non-current liabilities - Interest bearing liabilities

	2014 \$'000	2013 \$'000
Secured		
Lease liabilities	15	13
Total secured non-current borrowings	15	13
Unsecured		
Australian Unity Notes	120,000	120,000
Australian Unity Notes establishment costs	(2,398)	(3,738)
Development finance loans	52,736	18,492
Retirement Village Investment Notes	43,077	54,053
Subordinated capital notes	30,000	–
Term deposits	17,099	15,552
Total unsecured non-current borrowings	260,514	204,359
Total non-current borrowings	260,529	204,372

(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. As at 30 June 2014, the Gearing Ratio was 38.3 percent (2013: 35.9 percent).

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

(b) Development finance loans

The 2014 balance of development finance loans comprised bank loan facilities for the development of retirement village sites in Mornington (Peninsula Grange) and Vermont South (Victoria Grange) in Victoria and a retirement and aged care facilities site in Carlton (Carlton RACF).

The loan facility for Peninsula Grange up to \$23.5 million will expire in June 2016. As at 30 June 2014, this loan amounted to \$12,571,000 bearing interest at 4.87 percent per annum (2013: 5.03 percent). During the year, a new loan facility was obtained for up to \$20 million maturing in August 2017. As at 30 June 2014, the loan amounted to \$6,173,000 bearing interest at 4.41 percent per annum.

The loan facility for Victoria Grange is up to \$7.8 million which initially matured in June 2014 has been extended to expire in January 2017. As at 30 June 2014 , this loan amounted to \$1,286,000 bearing interest at 4.87 percent per annum (2013: 5.03 percent).

The loan facility for Carlton RACF is up to \$37.9 million maturing in August 2017. As at 30 June 2014, the loan amounted to \$32,706,000 bearing interest at 4.56 percent per annum (2013: 4.77 percent). The Group has entered into an arrangement to swap the interest rate at 2.97 percent per annum effective on 25 September 2013 up to 25 November 2014.

(c) Retirement Village Investment Notes (RVIN)

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

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

Name	Prospectus	Maturity date	Interest rate	2014 \$'000	2013 \$'000
Series 1 RVIN	3	30 November 2015	8.75%	3,808	3,808
	4	30 November 2014	8.25%	–	8,581
	4	30 November 2016	8.50%	1,318	1,318
	5	30 November 2015	7.00%	2,962	2,962
	5	30 November 2017	7.50%	620	620
Series 2 RVIN	5	30 November 2019	7.50%	5,408	5,408
	3	31 December 2014	8.25%	–	4,118
	3	31 December 2016	8.50%	770	770
Series 3 RVIN	4	31 March 2015	8.00%	–	2,909
	1	31 March 2016	8.50%	145	145
	2	30 June 2016	8.50%	890	890
	3	31 December 2014	8.25%	–	130
	3	31 December 2016	8.50%	233	233
	5	30 June 2016	8.75%	3,521	3,521
	6	31 March 2015	8.00%	–	4,514
	7	30 June 2015	7.50%	–	7,045
	8	31 December 2015	7.00%	6,751	6,751
	8	31 December 2017	7.50%	315	315
	8	31 December 2019	7.50%	15	15
	9	30 June 2017	6.50%	6,321	–
Series 4 RVIN	1	30 June 2017	6.50%	10,000	–
Total				43,077	54,053

(d) Subordinated capital notes

On 11 July 2013, the Group repaid the existing \$25,000,000 subordinated capital notes and issued \$30,000,000 of new subordinated capital notes. The new notes have a maturity of 10 years with a non-call 5 year period and bear a floating interest rate equal to the 90-day BBSW rate plus a margin of 3.00 percent per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2014, the interest rate applicable to the quarter commencing 11 April 2014 was 5.71 percent (30 June 2013: 7.99 percent).

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

(e) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2014 ranging between 3.96 percent and 7.10 percent (2013: between 2.75 percent and 8.09 percent).

(f) Fair value

The fair values of borrowings are set out in note 4.

(g) Risk exposures

Information about the Group’s exposure to risk arising from borrowings is set out in note 3.

Notes to the consolidated financial statements

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26 Non-current liabilities - Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2014 \$'000	2013 \$'000
Allocable cost adjustment on consolidation	1,046	1,013
Fixed assets and investment properties	47,981	40,222
Other deductible items	4,797	3,100
Risk Equalisation Trust Fund	7,500	6,045
Tax deferred	2,852	3,098
Unrealised gains	37,634	16,221
Total deferred tax liabilities	101,810	69,699
Set-off of deferred tax assets pursuant to set-off provisions (note 19)	(57,826)	(41,484)
Net deferred tax liabilities	43,984	28,215
Movements		
Balance at the beginning of the financial year	69,699	56,741
Charged to the income statement (note 9)	29,335	13,728
Other transfers	2,776	(770)
Balance at the end of the financial year	101,810	69,699

27 Reserves and retained earnings

	2014 \$'000	2013 \$'000
(a) Reserves		
Asset revaluation reserve	2,462	2,462
Reserve for credit losses	1,594	1,429
Cash flow hedges reserve	(2,190)	(2,210)
	1,866	1,681
Movements:		
<i>Asset revaluation reserve</i>		
Balance at the beginning of the financial year	2,462	2,462
Balance at the end of the financial year	2,462	2,462
<i>Reserve for credit losses</i>		
Balance at the beginning of the financial year	1,429	1,212
Transfer from retained earnings	165	217
Balance at the end of the financial year	1,594	1,429
<i>Cash flow hedges reserve</i>		
Balance at the beginning of the financial year	(2,210)	(2,486)
Movements in hedging value during the year	29	394
Deferred tax	(9)	(118)
Balance at the end of the financial year	(2,190)	(2,210)

(b) Nature and purpose of other reserves

(i) Asset revaluation reserve

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

	2014 \$'000	2013 \$'000
Balance at the beginning of the financial year	221,075	191,886
Transfer to reserve for credit losses	(165)	(217)
Profit for the year	29,645	29,406
Balance at the end of the financial year	250,555	221,075

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

	2014 \$'000	2013 \$'000
Profit after income tax for the year	29,645	29,410
Depreciation and amortisation	15,344	15,391
Impairment provision	(3,447)	(205)
Investment gains	(315)	(11,737)
Fair value gains on investment property	(11,705)	(10,281)
Net loss on sale of non-current assets	-	282
Share of net profits of associates and joint ventures	(4,734)	(4,349)
Business combination related expenses	-	42
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(13,490)	15,504
Decrease in inventories	74	22
Increase in loans and advances	(72,281)	(1,486)
Decrease/(increase) in current tax assets	128	(2,556)
Decrease in deferred tax assets	8,663	12,388
Decrease/(increase) in other operating assets	(281)	123
Increase/(decrease) in trade and other payables	(4,201)	12,879
Increase/(decrease) in deposits liability	83,762	(36,684)
Decrease in current tax liabilities	-	(9,070)
Increase in deferred tax liabilities	15,351	10,884
Increase in provisions	8,806	5,980
Increase/(decrease) in benefit fund policy liabilities	51,697	(20,484)
Increase/(decrease) in other operating liabilities	2,570	(43,244)
Net cash inflow / (outflow) from operating activities	105,586	(37,191)

29 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 30.

(c) Key management personnel

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

(d) Transactions and balances with related parties

Transactions between the Group and related parties for the financial years ended 30 June 2014 and 2013 were as follows:

- Dividends received from associates and joint ventures, \$6,335,841 (2013: \$4,451,225).
- Investment management fees charged by associates and joint ventures, \$4,957,568 (2013: \$6,863,124).
- Commission, director fees and other costs charged to associates and joint ventures, \$1,923,643 (2013: \$1,325,384).
- Donations to a related charity organisation, \$350,995 (2013: \$359,888).
- Health insurance claims made by a related entity, \$384,651 (2013: \$2,432,546).
- Rental income from related entity, \$446,420 (2013: \$464,496).
- Loans provided to related entities, \$1,059,676 (2013: \$nil).
- In August 2013, the Group purchased the remaining 9.75 percent non-controlling interest in a subsidiary from a related party for \$2,358,138. The fair value of net assets acquired was \$1,239,017 and the share purchase resulted in goodwill of \$1,119,121.

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

- Trade and other receivables from related entities as at 30 June 2014, \$283,980 (2013: \$430,337).
- Trade and other payables to related entities as at 30 June 2014, \$642,054 (2013: \$2,305,263).
- Loans receivable from associates and joint ventures as at 30 June 2014, \$nil (2013 : \$203,255).
- Loans receivable from related entities as at 30 June 2014, \$30,652,637 (2013: \$29,592,961).
- Loan payable to related entity as at 30 June 2014, \$5,100,000 (2013: \$2,800,000).

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

30 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries:

Name of entity	Country of incorporation	Holding	Equity holding	
			2014 %	2013 %
Wholly-owned by the Parent entity				
Australian Unity Advice Pty Ltd	Australia	Shares	100	100
Australian Unity Capital Management Ltd	Australia	Shares	100	100
Australian Unity Corporate Advisory Services Pty Ltd	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 Pty Ltd	Australia	Shares	100	100
Australian Unity Investments Strategic Holdings Pty Ltd	Australia	Shares	100	100
Australian Unity Lifestyle Pty Ltd	Australia	Shares	100	-
Australian Unity Property Limited	Australia	Shares	100	100
Australian Unity Property Management 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 Strategic Holdings Pty Limited	Australia	Shares	100	100
Australian Unity Strategic Investments Pty Ltd	Australia	Shares	100	100
Big Sky Building Society Limited	Australia	Shares	100	100
Big Sky Financial Planning Pty Ltd	Australia	Shares	100	100
Grand United Corporate Health Limited	Australia	Shares	100	100
Lifeplan Australia Friendly Society Limited	Australia	Shares	100	100
Remedy Healthcare Group Pty Ltd	Australia	Shares	100	100
Not directly owned by the Parent entity				
Australian Unity Aged Care Investments Pty Ltd	Australia	Shares	100	90.25
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 Better Living Services Pty Ltd	Australia	Shares	100	100
Australian Unity Bondi Trust	Australia	Units	100	100
Australian Unity Bowral Development Pty Ltd	Australia	Shares	100	100
Australian Unity Care Services Pty Ltd	Australia	Shares	100	90.25
Australian Unity Carlton Aged Care Trust	Australia	Units	100	90.25
Australian Unity Carlton Retirement Trust #1 (formerly Australian Unity Aged Care Trust #6)	Australia	Units	100	100
Australian Unity Cranbourne Development Trust	Australia	Units	100	100
Australian Unity Greenfields Pty Ltd	Australia	Shares	100	100
Australian Unity Investment Bonds Pty Ltd	Australia	Shares	100	100
Australian Unity Investments Management Administration Pty Ltd	Australia	Shares	100	100
Australian Unity Investments Trust	Australia	Units	100	100
Australian Unity Lilydale Development Trust	Australia	Units	100	100
Australian Unity Retirement Development Management 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
Better Home Care Pty Ltd	Australia	Shares	100	100
Cash Enhanced Plus Internal Investment 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

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30 Subsidiaries (continued)

Name of entity	Country of incorporation	Holding	Equity holding	
			2014 %	2013 %
Health Providers Australia Pty Ltd	Australia	Shares	100	50
High Yield Plus Internal Investment Trust	Australia	Units	100	100
Long Duration Internal Investment Trust	Australia	Units	100	100
Mortgages No. 1 Internal Investment Trust	Australia	Units	100	100
National Friendly Society Limited*	Australia	Shares	100	100
Other Securities Internal Investment Trust	Australia	Units	100	100
Retirement Management Services Pty Limited	Australia	Shares	100	100
Australian Unity Retirement Village Property Fund	Australia	Units	100	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

* 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.

The Parent entity investment in the subsidiaries is stated at cost, in accordance with the accounting policy described in note 1(s).

Information on related party transactions is included in note 29.

31 Key management personnel disclosures

(a) Key management personnel compensation

	2014 \$	2013 \$
Short term employee benefits	5,958,759	4,564,338
Post employment benefits	323,422	206,296
Long term benefits	547,535	750,479
	6,829,716	5,521,113

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

(b) Other transactions with key management personnel

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

32 Commitments

(a) Capital commitments

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

	2014 \$'000	2013 \$'000
Payable within one year:		
Investment property	31,789	23,774
Total capital commitments	31,789	23,774

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

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

	2014 \$'000	2013 \$'000
Within one year	4,331	4,835
Later than one year but not later than five years	8,809	8,369
Later than five years	25	528
	13,165	13,732

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.

(c) Credit related commitments

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

	2014 \$'000	2013 \$'000
Irrevocable approved but undrawn loans	9,753	11,841
Revocable loans with balances available for redraw	41,709	36,831
Revocable undrawn lines of credit, credit cards and overdrafts	33,110	32,436
	84,572	81,108

33 Contingencies

Contingent liabilities

Contingent liabilities exist in relation to future anticipated calls on shares held by the Group in the joint ventures, Wingate Asset Management Pty Limited, Seres Asset Management Limited, Altius Asset Management Pty Ltd, FedInvest Pty Ltd and Certainty Financial. As at 30 June 2014, the contingent liabilities are as follows:

- Wingate Asset Management Pty Limited amounted to \$621,000 for 6,210,000 shares at 10.0 cents each (2013: \$931,500 for 6,210,000 shares at 15.0 cents each);
- Seres Asset Management Limited amounted to \$549,120 for 12,500,000 shares at 4.39 cents each (2013: \$1,410,100 for 12,500,000 shares at 11.3 cents each);
- Altius Asset Management Pty Ltd amounted to \$339,575 for 425,000 shares at 79.9 cents each (2013: \$339,575 for 425,000 shares at 79.9 cents each);
- FedInvest Pty Ltd amounted to \$245,000 for 560,000 shares at 43.8 cents each (2013: \$nil); and
- Certainty Financial amounted to \$11,007,000 for the remaining 30 percent ownership interest.

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

Guarantees

(i) Guarantee for computer equipment

The Parent entity provides a financial guarantee of up to \$5 million for computer equipment lease transactions entered into by a wholly owned subsidiary company. As at 30 June 2014, there was \$1,292,413 (2013: \$2,345,710) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

(ii) Bank guarantee

The Group has entered into bank guarantee arrangements totalling \$6,075,622 (2013: \$7,604,222) 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.

(iii) Liquidity support scheme

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

As a CUFSS member, BSBS:

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

At 30 June 2014, no funding was required by and paid to CUFSS (2013: \$nil).

The Group had no other contingent assets or liabilities at 30 June 2014.

34 Events occurring after the reporting period

In August 2014, Australian Unity Retirement Living Management Pty Ltd (AURLM) expects to complete a transaction to acquire INS Health Care (INS), the home care business of C.Rafin and Co Pty Ltd in Wollongong, New South Wales. The principal activity of INS is the provision of community health care and home help services in New South Wales. The business acquired mainly consists of 126 government funded aged care packages, intellectual property, business records, customer contracts, stock and equipment. As part of the agreement, all the key personnel and the majority of carers will transfer to AURLM. The cash purchase consideration amounts to \$6 million, subject to an adjustment for the estimated leave entitlement amount of the transferring employees. The identifiable assets acquired mainly consist of intangible assets which are the aged care packages and customer contracts. The transaction is planned to be completed by end of August 2014. If, after the completion of the transaction, the acquiree is awarded new aged care packages under the Federal government's Aged Care Approvals Round, these packages will be transferred to AURLM at a pre-determined amount based on a certain formula up to \$1 million. Through this acquisition the Group has expanded the range of aged care business through community and home care services.

On 27 August 2014, Calliden Group Limited announced that it had entered into a Scheme Implementation Deed with Steadfast Group Limited under which Steadfast would acquire all of the share capital in Calliden. Key terms of the Scheme of Arrangement include a total payment to shareholders of 46.5 cents per share and the unanimous recommendation of the board of Calliden that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interests of Calliden shareholders. The Scheme is subject to approval by the Calliden shareholders, as well as the Federal Court of Australia, the Treasurer of the Commonwealth of Australia and the Australian Prudential Regulation Authority.

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For the year ended 30 June 2014

34 Events occurring after the reporting period (continued)

The approval process is estimated by Calliden to take until mid-December 2014. Australian Unity is yet to evaluate the offer. If the scheme is implemented in accordance with the proposal, the proceeds of the sale of Australian Unity's shares in Calliden will amount to some \$14 million compared with the carrying amount at 30 June 2014 of \$10.25 million.

The board is not aware of any other matter or circumstance arising since 30 June 2014 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.

35 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:

	2014 \$	2013 \$
(a) Audit and other assurance services		
Ernst & Young Australian firm		
Audit and review of financial statements	1,287,853	1,364,422
Audit of regulatory returns	247,376	285,089
Total remuneration for audit and other assurance services	1,535,229	1,649,511
(b) Taxation and other services		
Ernst & Young Australian firm		
Tax compliance services	282,172	443,436
Tax consulting services	1,120,647	505,868
Other services	9,500	69,043
Total remuneration for taxation and other services	1,412,319	1,018,347
Total auditors' remuneration	2,947,548	2,667,858

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.

36 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

	2014 \$'000	2013 \$'000
Premium revenue	754,442	706,315
Claims expense	(655,118)	(598,769)
Net Risk Equalisation Trust Fund recoveries	27,745	22,370
State levies	(4,910)	(4,284)
Net claims incurred	(632,283)	(580,683)
Acquisition costs	(41,923)	(42,278)
Other underwriting expenses	(3,300)	(2,914)
	(45,223)	(45,192)
Underwriting result	76,936	80,440
Net investment income	14,084	21,726
Employee benefits expense	(24,449)	(22,914)
Other expenses from ordinary activities	(22,794)	(21,632)
Finance costs	(2,985)	(3,200)
	(36,144)	(26,020)
Profit before income tax	40,792	54,420
Income tax expense	(11,858)	(15,030)
Profit after income tax	28,934	39,390

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

	2014 \$'000	2013 \$'000
Movement in net RETF receivable		
Balance at the beginning of the financial year	5,614	5,824
Net RETF raised during the year	27,745	22,370
Net RETF received during the year	(26,229)	(22,580)
Balance at the end of the financial year	7,130	5,614

(c) Outstanding claims provision

	2014 \$'000	2013 \$'000
Outstanding claims - central estimate of the expected present value of future payments for claims incurred	51,578	45,961
Risk margin	4,485	3,877
Claims handling costs	1,211	1,174
Gross outstanding claims liability	57,274	51,012
Movement in the gross outstanding claims provision		
Balance at the beginning of the financial year	51,012	47,608
Claims incurred during the year	655,118	598,769
Claims paid during the year	(648,856)	(595,365)
Balance at the end of the financial year	57,274	51,012
Current	57,274	51,012

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

The risk margin of 8.5 percent (2013: 8.2 percent) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95 percent (2013: 95 percent). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments and the results are assumed to be indicative of future volatility.

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

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

The weighted average expected term to settlement of claims from the end of the reporting period is estimated to be 1.84 months (2013: 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%	(1,805)	(1,805)
Central estimate	-5%	1,805	1,805
Claims handling	+10%	(85)	(85)
Claims handling	-10%	85	85

(d) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2014 (2013: \$nil) at a 75 percent (2013: 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.

Notes to the consolidated financial statements

For the year ended 30 June 2014

37 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

	2014 \$’000	2013 \$’000
Life investment contract liabilities	719,881	633,905
Life insurance contract liabilities - guaranteed element	1,102,065	1,152,530
Life insurance contract liabilities - other	712	649
Unvested policyholder liabilities	62,270	46,147
Total policy liabilities	1,884,928	1,833,231
Expected to be realised within 12 months	185,822	221,513
Expected to be realised in more than 12 months	1,699,106	1,611,718
	1,884,928	1,833,231

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

	2014 \$’000	2013 \$’000
Life investment contract liabilities		
Balance at the beginning of the financial year	633,905	595,968
Increase recognised in the profit or loss	42,610	47,806
Premiums recognised as a change in contract liabilities	102,065	69,886
Claims recognised as a change in contract liabilities	(58,699)	(79,755)
Life investment contract liabilities at the end of the financial year	719,881	633,905
Life insurance contract liabilities		
Balance at the beginning of the financial year	1,153,179	1,230,892
Decrease recognised in the profit or loss	(50,402)	(77,713)
Life insurance contract liabilities at the end of the financial year	1,102,777	1,153,179
Unvested policyholder liabilities		
Balance at the beginning of the financial year	46,147	26,855
Increase/(decrease) recognised in the profit or loss	16,123	19,292
Unvested policyholder benefits liability at the end of the financial year	62,270	46,147
Net policy liabilities at the end of the financial year	1,884,928	1,833,231

(c) Analysis of policy liability revenue and expenses

	2014 \$’000	2013 \$’000
Revenue and other income		
Total life insurance and participating contract premium revenue	55,681	62,655
Reinsurance premium	(358)	(416)
Life insurance contract premium revenue	55,323	62,239
Interest income	1,749	1,194
Distribution income	67,266	68,750
Realised losses	(7,952)	(14,264)
Unrealised gains	64,534	62,608
Other income	329	156
Total revenue and other income	181,249	180,683
Expenses		
Total life insurance and participating contract claims expense	126,879	141,746
Life insurance contract claims expense	126,879	141,746
Policy maintenance expenses - life insurance contracts		
Commissions	5	13
Management fees	21,439	21,448
Other expenses	369	533
Movement in life insurance contract liabilities	(50,402)	(77,713)
Movement in unvested policyholder liabilities	16,123	19,292
Movement in life investment contract liabilities	42,610	47,806
Total expenses	157,023	153,125

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2014. 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:

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

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

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

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2014 were as follows:

Fund Name	Discount Basis ¹	Mean Guaranteed Liability Term (Yrs)	Discount Rate	Fees (% of assets)	Inv Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis ²
Assurance Benefit Fund	Zero Coupon CGS Rate	12.5	3.92%	1.80%	30%	1.49%	100% of ALT2009-11
Funeral Fund	Zero Coupon CGS Rate	16.5	4.19%	0.70%	0%	3.49%	50% of ALT2009-11
Life Assurance Benefit Fund	Zero Coupon CGS Rate	11.0	3.79%	2.25%	30%	1.08%	75% of ALT2009-11
Central Sick and Funeral Fund	Zero Coupon CGS Rate	10.0	3.70%	2.00%	0%	1.70%	50% of ALT2009-11
Funeral and Ancillary Benefit Fund	Zero Coupon CGS Rate	13.5	4.01%	2.00%	0%	2.01%	100% of ALT2009-11
Travel Protection Fund	Zero Coupon CGS Rate	13.5	1.51%	1.50%	0%	0.01%	85% of ALT2009-11
Whole of Life Funeral Fund	Zero Coupon CGS Rate	11.5	3.83%	1.50%	0%	2.33%	100% of ALT2009-11

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2013 were as follows:

Fund Name	Discount Basis ¹	Mean Guaranteed Liability Term (Yrs)	Discount Rate	Fees (% of assets)	Inv Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis ²
Assurance Benefit Fund	Zero Coupon CGS Rate	15	4.33%	1.80%	30.00%	1.77%	50% of ALT2009-11
Endowment and Funeral Fund - Funeral Fund	Zero Coupon CGS Rate	17	4.32%	0.00%	0.00%	4.32%	50% of ALT2009-11
Life Assurance Benefit Fund	Zero Coupon CGS Rate	13.5	4.22%	2.25%	30.00%	1.38%	50% of ALT2009-11
Central Sick and Funeral Fund	Zero Coupon CGS Rate	11	4.02%	2.00%	0.00%	2.02%	50% of ALT2009-11
Funeral and Ancillary Benefit Fund	Zero Coupon CGS Rate	14	4.26%	1.80%	0.00%	2.46%	100% of ALT2009-11
Travel Protection Fund	Zero Coupon CGS Rate	13	4.18%	0.00%	0.00%	4.18%	85% of ALT2009-11
Whole of Life Funeral Fund	Zero Coupon CGS Rate	11.5	4.06%	1.50%	0.00%	2.56%	110% of ALT2009-11

Notes:

- ¹ The zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term.
- ² ALT2009-11 refers to Australian Life Tables (Male and Female) 2009-2011.

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

37 Benefit fund policy liabilities (continued)

The following additional assumptions apply:

- For the Funeral and Ancillary Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2013: 2.6 percent) per annum; and
- For the Travel Protection Fund, the proportion of claims (arising from each death) is 4.0 percent (2013: 5.0 percent) and the average claim amount is \$1,200 (2013: \$1,200) inflating at 2.5 percent (2013: 2.6 percent) per annum.

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

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

Policy Liability Valuation for Defined Contribution Funds

The defined contribution funds comprise the following:

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

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

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

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

The Grand Bonds Assurance Fund has an additional death benefit and bonus guarantee. The liability for bonus guarantees has been evaluated by inspecting individual policies that may give rise to bonus guarantees. The liability for death benefits was determined as the largest exposure to a single member in the fund.

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

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds.

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2013 were as follows:

Fund Name	Discount Basis¹	Mean Guaranteed Liability Term (Yrs)	Discount Rate	Fees (% of assets)	Inv Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis²
Capital Guaranteed Funeral Bond (Non Taxable)	Zero Coupon CGS Rate plus illiquidity premium	8.0	4.06%	2.05%	0.00%	2.01%	110% of ALT2009-11
Capital Guaranteed Funeral Bond (Taxable)	Zero Coupon CGS Rate plus illiquidity premium	10.0	4.28%	2.05%	30.00%	1.56%	130% of ALT2009-11
Capital Secure Funeral Bond	Zero Coupon CGS Rate plus illiquidity premium	6.0	3.70%	1.53%	0.00%	2.17%	100% of ALT2009-11
Funeral Bond	Zero Coupon CGS Rate plus illiquidity premium	8.0	4.06%	1.50%	0.00%	2.56%	100% of ALT2009-11
Prepaid Funeral Fund	Zero Coupon CGS Rate plus illiquidity premium	7.5	3.98%	1.50%	0.00%	2.48%	110% of ALT2009-11
Funeral Fund No 2 - Non Taxable	Zero Coupon CGS Rate plus illiquidity premium	8.5	4.12%	2.00%	0.00%	2.12%	115% of ALT2009-11
Funeral Fund No 2 - Taxable	Zero Coupon CGS Rate plus illiquidity premium	8.5	4.12%	2.00%	30.00%	1.49%	115% of ALT2009-11
Tax Minimiser Funeral Fund	Zero Coupon CGS Rate plus illiquidity premium	7.5	3.98%	1.50%	30.00%	1.74%	200% of ALT2009-11

Notes

- The zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term plus an illiquidity premium.
- ALT2009-11 refers to Australian Life Tables (Male and Female) 2009-2011.

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

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

Taxation

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

Surrender values

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

Profit carriers

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

Restrictions on assets

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

Assets backing policy liabilities

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

Future participating benefits

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

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

Sensitivity analysis

The Group has no material sensitivity analysis to disclose. If experience varies from expectations then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts, except 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 2014. 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.

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2014 were as follows:

Fund Name	Discount Basis¹	Mean Guaranteed Liability Term (Yrs)	Discount Rate	Fees (% of assets)	Inv Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis²
Capital Guaranteed Funeral Bond (Non Taxable)	Zero Coupon CGS Rate plus illiquidity premium	8.0	3.75%	2.70%	0%	1.05%	110% of ALT2009-11
Capital Guaranteed Funeral Bond (Taxable)	Zero Coupon CGS Rate plus illiquidity premium	10.0	3.96%	2.70%	30%	0.88%	120% of ALT2009-11
Capital Secured Funeral Bond	Zero Coupon CGS Rate plus illiquidity premium	5.5	3.39%	1.53%	0%	1.86%	100% of ALT2009-11
Funeral Bond	Zero Coupon CGS Rate plus illiquidity premium	7.0	3.61%	1.50%	0%	2.11%	100% of ALT2009-11
Prepaid Funeral Fund	Zero Coupon CGS Rate plus illiquidity premium	7.0	3.61%	1.50%	0%	2.11%	110% of ALT2009-11
Funeral Bond No 2 - Non Taxable	Zero Coupon CGS Rate plus illiquidity premium	8.5	3.80%	2.00%	0%	1.80%	110% of ALT2009-11
Funeral Bond No 2 - Taxable	Zero Coupon CGS Rate plus illiquidity premium	8.5	3.80%	2.00%	30%	1.26%	110% of ALT2009-11
Tax Minimiser Funeral Fund	Zero Coupon CGS Rate plus illiquidity premium	8.5	3.80%	1.50%	30%	1.61%	160% of ALT2009-11

37 Benefit fund policy liabilities (continued)

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 by APRA to hold a prudential capital requirement over and above their policy liabilities, as laid down by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118. These standards have been met for all benefit funds as at 30 June 2014 and 2013.

For each benefit fund subject to a solvency requirement, the figures in note 38 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 38 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

38 Disaggregated information - Benefit Funds

(a) Non-investment linked benefit funds

	Revenue			Expenses		Profit/(loss) for the year	
	Net premium \$'000	Investment \$'000	Other \$'000	Claims \$'000	Other \$'000	Before tax \$'000	After tax \$'000
30 June 2014							
Accidental death benefits	94	12	–	–	67	39	–
Adult accident	15	3	–	1	8	9	–
Assurance benefit fund	–	1,216	81	461	641	195	–
Central sick and funeral fund	–	492	–	205	288	(1)	–
Funeral and ancillary benefits	9	1,241	–	607	642	1	–
Funeral fund	–	893	248	512	629	–	–
Life assurance fund	–	972	–	170	489	313	–
Personal risk fund	44	4	–	30	47	(29)	–
Student accident	16	4	–	2	10	8	–
Travel protection funeral	55	98	–	13	94	46	–
Whole of life funeral	–	56	–	14	43	(1)	–
Total non-investment linked benefit fund - Life insurance contracts	233	4,991	329	2,015	2,958	580	–

30 June 2013							
Accidental death benefits	113	65	–	–	96	82	–
Adult accident	17	14	–	2	18	11	–
Assurance benefit fund	–	9	–	277	27	(295)	–
Central sick and funeral fund	–	55	–	154	(99)	–	–
Funeral and ancillary benefits	12	(411)	–	665	(1,064)	–	–
Funeral fund	–	(196)	–	396	(591)	(1)	–
Life assurance fund	–	109	–	124	(10)	(5)	–
Personal risk fund	26	13	–	17	(84)	106	–
Student accident	24	36	–	3	33	24	–
Travel protection funeral	100	13	–	12	65	36	–
Whole of life funeral	–	19	–	38	(19)	–	–
Total non-investment linked benefit fund - Life insurance contracts	292	(274)	–	1,688	(1,628)	(42)	–

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38 Disaggregated information - Benefit Funds (continued)

	Assets		Liabilities		Equity	
	Investments	Other	Life	Other	Equity	Coverage
	\$'000	\$'000	insurance	\$'000	\$'000	of Solvency
			\$'000			Reserve
						%
30 June 2014						
Accidental death benefits	–	376	335	41	–	46
Adult accident	–	84	77	7	–	33
Assurance benefit fund	11,193	(68)	11,101	24	–	76
Central sick and funeral fund	6,592	6	6,590	8	–	88
Funeral and ancillary benefits	12,068	1,414	13,412	70	–	100
Funeral fund	11,472	137	11,608	1	–	97
Life assurance fund	12,988	10	12,710	288	–	97
Personal risk fund	130	32	176	(14)	–	70
Student accident	–	134	124	10	–	24
Travel protection funeral	720	434	984	170	–	86
Whole of life funeral	582	63	626	19	–	95
Total non-investment linked benefit fund - Life insurance contracts	55,745	2,622	57,743	624	–	
30 June 2013						
Accidental death benefits	–	349	333	16	–	50
Adult accident	–	73	68	5	–	38
Assurance benefit fund	11,370	–	11,382	(12)	–	72
Central sick and funeral fund	6,405	–	6,393	12	–	92
Funeral and ancillary benefits	11,944	1,070	12,917	97	–	100
Funeral fund	11,474	(491)	10,976	7	–	89
Life assurance fund	12,612	–	12,430	182	–	98
Personal risk fund	92	31	133	(10)	–	97
Student accident	–	116	114	2	–	30
Travel protection funeral	644	304	939	9	–	89
Whole of life funeral	556	56	592	20	–	100
Total non-investment linked benefit fund - Life insurance contracts	55,097	1,508	56,277	328	–	

(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
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2014							
Bonus accumulation	257	3,481	–	40,444	(37,889)	1,183	–
Bonus bond no 1	1,097	1,366	–	5,532	(3,069)	–	–
Capital guaranteed bond	271	3,751	–	17,498	(14,153)	677	–
Capital guaranteed deferred annuity	10	29	–	239	(203)	3	–
Capital guaranteed funeral bond (non-taxable)	70	2,737	–	3,515	(676)	(32)	–
Capital guaranteed funeral bond (taxable)	718	4,323	–	3,522	665	854	–
Capital guaranteed mortgage bond	140	865	–	2,327	(1,481)	159	–
Capital secure funeral bond	51	1,670	–	2,825	(1,082)	(22)	–
Community bond	974	2,163	–	6,623	(4,135)	649	–
Education savings plan	1,499	414	–	1,692	153	68	–
Flexishield bond	362	969	–	4,843	(3,776)	264	–
Funeral benefits no 2	1,196	18,958	–	18,988	(1,296)	2,462	–
Funeral bond	34	637	–	478	193	–	–
Grand bonds assurance fund	35	173	–	837	(664)	35	–
NextGen investments capital guaranteed	15,556	2,404	–	(1,327)	18,789	498	–
Prepaid funeral	1	525	–	409	117	–	–
Tax minimiser funeral	32,753	12,996	–	16,204	26,203	3,342	–
Telecom rollover	66	36	–	215	(115)	2	–
Total investment linked benefit fund - Life investment contracts with discretionary participating features	55,090	57,497	–	124,864	(22,419)	10,142	–
30 June 2013							
Bonus accumulation	704	5,352	–	27,692	(23,389)	1,753	–
Bonus bond no 1	1,427	1,991	–	5,578	(2,167)	7	–
Capital guaranteed bond	286	5,641	–	13,466	(8,734)	1,195	–
Capital guaranteed deferred annuity	–	49	–	397	(353)	5	–
Capital guaranteed funeral bond (non-taxable)	118	1,779	–	3,651	(1,753)	(1)	–
Capital guaranteed funeral bond (taxable)	3,804	1,621	–	4,498	721	206	–
Capital guaranteed mortgage bond	172	1,249	–	3,191	(2,037)	267	–
Capital secure funeral bond	28	1,564	–	3,221	(1,622)	(7)	–
Community bond	948	2,882	144	5,891	(2,854)	937	–
Education savings plan	1,661	547	–	1,854	265	89	–
Flexishield bond	337	1,585	(7)	3,852	(2,437)	500	–
Funeral benefits no 2	1,249	11,583	–	19,723	(8,435)	1,544	–
Funeral bond	52	333	–	646	(261)	–	–
Grand bonds assurance fund	28	242	–	166	52	52	–
NextGen investments capital guaranteed	13,883	2,726	–	29,464	(13,449)	594	–
Prepaid funeral	1	325	–	654	(328)	–	–
Tax minimiser funeral	37,249	5,766	–	15,557	26,386	1,072	–
Telecom rollover	–	55	–	557	(507)	5	–
Total investment linked benefit fund - Life investment contracts with discretionary participating features	61,947	45,290	137	140,058	(40,902)	8,218	–

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38 Disaggregated information - Benefit Funds (continued)

	Assets		Liabilities		Equity	
	Investments	Other	Life	Other	Equity	Coverage
	\$'000	\$'000	insurance	\$'000	\$'000	of Solvency
			\$'000			Reserve
						%
30 June 2014						
Bonus accumulation	128,586	188	127,445	1,329	–	100
Bonus bond no 1	2,283	36,307	38,586	4	–	98
Capital guaranteed bond	110,086	1,678	110,892	872	–	100
Capital guaranteed deferred annuity	–	702	703	(1)	–	98
Capital guaranteed funeral bond (non-taxable)	41,014	506	41,426	94	–	96
Capital guaranteed funeral bond (taxable)	62,232	4,534	65,481	1,285	–	97
Capital guaranteed mortgage bond	27,376	1,032	28,176	232	–	95
Capital secure funeral bond	28,871	250	29,083	38	–	93
Community bond	3,523	58,486	61,264	745	–	99
Education savings plan	856	12,244	13,039	61	–	100
Flexishield bond	8,214	22,152	29,935	431	–	99
Funeral benefits no 2	203,645	32,328	233,600	2,373	–	92
Funeral bond	7,356	70	7,421	5	–	85
Grand bonds assurance fund	4,936	–	4,896	40	–	100
NextGen investments capital guaranteed	101,097	215	100,809	503	–	100
Prepaid funeral	5,982	181	6,158	5	–	85
Tax minimiser funeral	171,239	39,607	206,951	3,895	–	90
Telecom rollover	1,360	100	1,439	21	–	99
Total investment linked benefit fund - Life investment contracts with discretionary participating features	908,656	210,580	1,107,304	11,932	–	
30 June 2013						
Bonus accumulation	168,789	87	166,858	2,018	–	100
Bonus bond no 1	719	41,426	42,179	(34)	–	97
Capital guaranteed bond	127,344	–	126,551	793	–	100
Capital guaranteed deferred annuity	–	925	916	9	–	98
Capital guaranteed funeral bond (non-taxable)	43,620	(668)	42,863	89	–	96
Capital guaranteed funeral bond (taxable)	64,163	1,505	66,019	(351)	–	99
Capital guaranteed mortgage bond	30,140	–	29,992	148	–	95
Capital secure funeral bond	30,856	(302)	30,426	128	–	97
Community bond	2,881	64,315	66,214	982	–	99
Education savings plan	702	12,536	13,074	164	–	100
Flexishield bond	9,920	24,585	34,106	399	–	99
Funeral benefits no 2	214,123	23,101	237,917	(693)	–	97
Funeral bond	7,082	219	7,287	14	–	87
Grand bonds assurance fund	5,638	–	5,611	27	–	100
NextGen investments capital guaranteed	83,166	288	82,768	686	–	100
Prepaid funeral	5,703	394	6,091	6	–	86
Tax minimiser funeral	143,179	40,930	182,606	1,503	–	92
Telecom rollover	1,491	100	1,571	20	–	99
Total investment linked benefit fund - Life investment contracts with discretionary participating features	939,516	209,441	1,143,049	5,908	–	

(c) Investment linked benefit fund - Investment contracts

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium	Investment	Other	Claims	Other	Before Tax	After Tax
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2014							
Balanced growth bond	–	2,417	–	–	1,877	540	–
Capital base	–	866	–	–	570	296	–
Conservative growth bond	–	767	–	–	594	173	–
Education bond long-term portfolio	–	435	–	–	337	98	–
Education bond medium-term portfolio	–	115	–	–	91	24	–
Education bond short-term portfolio	–	13	–	–	10	3	–
Education savings plan	–	9,921	–	–	8,309	1,612	–
Flexigrowth	–	379	–	–	385	(6)	–
Growth investment	–	3,256	–	–	2,499	757	–
High growth bond	–	294	–	–	230	64	–
Income	–	349	–	–	357	(8)	–
Managed investment	–	7,334	–	–	5,753	1,581	–
NextGen investments	–	19,372	–	–	15,189	4,183	–
Select strategies	–	16,188	–	–	12,314	3,874	–
TaxSmart	–	426	–	–	315	111	–
Wealth builder	–	977	–	–	775	202	–
Total Investment linked benefit fund - Investment contracts without discretionary participating features	–	63,109	–	–	49,605	13,504	–
30 June 2013							
Balanced growth bond	–	4,498	–	–	3,293	1,205	–
Capital base	–	1,169	–	–	787	382	–
Conservative growth bond	–	1,276	–	–	937	339	–
Education bond long-term portfolio	–	919	–	–	674	245	–
Education bond medium-term portfolio	–	214	–	–	158	56	–
Education bond short-term portfolio	–	21	–	–	16	5	–
Education savings plan	–	10,159	19	–	7,510	2,668	–
Flexigrowth	–	593	–	–	593	–	–
Growth investment	–	4,276	–	–	3,082	1,194	–
High growth bond	–	660	–	–	484	176	–
Income	–	675	–	–	675	–	–
Managed investment	–	9,692	–	–	7,063	2,629	–
NextGen investments	–	17,205	–	–	12,766	4,439	–
Select strategies	–	20,063	–	–	14,491	5,572	–
TaxSmart	–	668	–	–	473	195	–
Wealth builder	–	1,184	–	–	907	277	–
Total Investment linked benefit fund - Investment contracts without discretionary participating features	–	73,272	19	–	53,909	19,382	–

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38 Disaggregated information - Benefit Funds (continued)

	Assets		Liabilities		Equity
	Investments \$'000	Other \$'000	Life insurance \$'000	Other \$'000	Equity \$'000
30 June 2014					
Balanced growth bond	28,159	335	27,357	1,137	–
Capital base	33,695	324	33,684	335	–
Conservative growth bond	14,634	131	13,805	960	–
Education bond long term portfolio	5,095	(4)	5,168	(77)	–
Education bond medium term portfolio	1,321	3	1,280	44	–
Education bond short term portfolio	176	2	175	3	–
Education savings plan	99,379	6,088	103,199	2,268	–
Flexigrowth	1,283	9,345	10,608	20	–
Growth investment	26,412	311	25,400	1,323	–
High growth bond	3,520	66	3,562	24	–
Income	10,117	3,217	13,187	147	–
Managed investment	75,824	1,201	72,972	4,053	–
NextGen investments	256,649	1,232	249,732	8,149	–
Select strategies	150,354	911	144,882	6,383	–
TaxSmart	2,185	6,607	8,623	169	–
Wealth builder	6,070	683	6,247	506	–
Total investment linked benefit fund - Investment contracts without discretionary participating features	714,873	30,452	719,881	25,444	–
30 June 2013					
Balanced growth bond	26,366	79	26,137	308	–
Capital base	37,482	268	37,331	419	–
Conservative growth bond	14,553	–	13,925	628	–
Education bond long term portfolio	4,874	(13)	5,056	(195)	–
Education bond medium term portfolio	1,289	–	1,275	14	–
Education bond short term portfolio	188	2	190	–	–
Education savings plan	82,119	3,961	83,267	2,813	–
Flexigrowth	1,743	10,863	12,579	27	–
Growth investment	25,204	272	24,925	551	–
High growth bond	3,485	62	3,601	(54)	–
Income	13,976	3,371	17,345	2	–
Managed investment	77,722	472	75,142	3,052	–
NextGen investments	183,173	2,301	178,457	7,017	–
Select strategies	138,228	945	138,553	620	–
TaxSmart	2,147	8,406	10,178	375	–
Wealth builder	5,636	620	5,944	312	–
Total investment linked benefit fund - Investment contracts without discretionary participating features	618,185	31,609	633,905	15,889	–

(d) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium / Deposits \$'000	Investment \$'000	Other \$'000	Claims \$'000	Other \$'000	Before Tax \$'000	After Tax \$'000
30 June 2014							
Non-investment linked benefit fund - Life insurance contracts	233	4,991	329	2,015	2,958	580	–
Investment linked benefit fund - Life investment contracts with discretionary participating features	55,090	57,497	–	124,864	(22,419)	10,142	–
Investment linked benefit fund - Investment contracts	–	63,109	–	–	49,605	13,504	–
Total	55,323	125,597	329	126,879	30,144	24,226	–

30 June 2013							
Non-investment linked benefit fund - Life insurance contracts	292	(274)	–	1,688	(1,628)	(42)	–
Investment linked benefit fund - Life investment contracts with discretionary participating features	61,947	45,290	137	140,058	(40,902)	8,218	–
Investment linked benefit fund - Investment contracts	–	73,272	19	–	53,909	19,382	–
Total	62,239	118,288	156	141,746	11,379	27,558	–

	Assets		Liabilities		Equity
	Investments \$'000	Other \$'000	Life Insurance \$'000	Other \$'000	Equity \$'000
30 June 2014					
Non-investment linked benefit fund - Life insurance contracts	55,745	2,622	57,743	624	–
Investment linked benefit fund - Life investment contracts with discretionary participating features	908,656	210,580	1,107,304	11,932	–
Investment linked benefit fund - Investment contracts	714,873	30,452	719,881	25,444	–
Total	1,679,274	243,654	1,884,928	38,000	–

30 June 2013					
Non-investment linked benefit fund - Life insurance contracts	55,097	1,508	56,277	328	–
Investment linked benefit fund - Life investment contracts with discretionary participating features	939,516	209,441	1,143,049	5,908	–
Investment linked benefit fund - Investment contracts	618,185	31,609	633,905	15,889	–
Total	1,612,798	242,558	1,833,231	22,125	–

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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39 Reconciliation of profit attributable to members of Australian Unity Limited

	2014		
	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	1,016,183	–	1,016,183
Direct life insurance premium revenue	–	591	591
Outwards reinsurance expense	–	(358)	(358)
Deposits received - investment contracts with DPF*	–	55,090	55,090
Investment income	–	125,597	125,597
Other	–	329	329
Total revenue and other income	1,016,183	181,249	1,197,432
Life insurance claims expense	–	2,015	2,015
Benefits and withdrawals paid - investment contracts with DPF*	–	124,864	124,864
Expenses, excluding finance costs	967,700	30,144	997,844
Total expenses, excluding finance costs	967,700	157,023	1,124,723
Finance costs	(18,140)	–	(18,140)
Share of net profits of associates and joint ventures	4,734	–	4,734
Profit before income tax	35,077	24,226	59,303
Income tax expense	(5,432)	(24,226)	(29,658)
Profit after income tax	29,645	–	29,645
Non-controlling interest	–	–	–
Profit after income tax and non-controlling interest	29,645	–	29,645

*DPF = Discretionary Participating Feature

	2013		
	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	961,104	–	961,104
Direct life insurance premium revenue	–	708	708
Outwards reinsurance expense	–	(416)	(416)
Deposits received - investment contracts with DPF*	–	61,947	61,947
Investment income	–	118,288	118,288
Other	–	156	156
Total revenue and other income	961,104	180,683	1,141,787
Life insurance claims expense	–	1,688	1,688
Benefits and withdrawals paid - investment contracts with DPF*	–	140,058	140,058
Distribution to policyholders	–	17,467	17,467
Expenses, excluding finance costs	910,772	(6,088)	904,684
Total expenses, excluding finance costs	910,772	153,125	1,063,897
Finance costs	(19,316)	–	(19,316)
Share of net profits of associates and joint ventures	4,349	–	4,349
Profit before income tax	35,365	27,558	62,923
Income tax expense	(5,955)	(27,558)	(33,513)
Profit after income tax	29,410	–	29,410
Non-controlling interest	(4)	–	(4)
Profit after income tax and non-controlling interest	29,406	–	29,406

*DPF = Discretionary Participating Feature

40 Building society financial information

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

(a) Financial performance summary

	2014 \$'000	2013 \$'000
Interest income	31,342	34,512
Interest expense	(15,901)	(18,990)
Net interest income	15,441	15,522
Non-interest income	2,410	2,921
Total income	17,851	18,443
Impairment reversal/(losses) on loans and advances	(146)	(673)
Other operating expenses	(16,074)	(16,770)
Total expenses	(16,220)	(17,443)
Profit before income tax	1,631	1,000
Income tax expense	(499)	(677)
Profit after income tax attributable to the owners of Big Sky Building Society Limited	1,132	323

(b) Financial position summary

Cash and cash equivalents	13,719	14,300
Financial assets at fair value through profit or loss	37,087	36,231
Held-to-maturity investments	70,045	58,769
Loans and advances	576,580	506,741
Other assets	4,009	2,724
Total assets	701,440	618,765
Interest bearing liabilities	646,000	562,238
Other liabilities	6,302	8,521
Total liabilities	652,302	570,759
Net assets	49,138	48,006

(c) Capital adequacy

Reserves and retained earnings	49,138	48,006
Less regulatory prescribed adjustments	(1,443)	(786)
Regulatory capital base	47,695	47,220
Risk weighted exposures	323,406	286,084
Capital adequacy ratio	14.75%	16.51%

41 Parent entity financial information

(a) Summary financial information

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

	2014 \$'000	2013 \$'000
Balance sheet		
Current assets	29,907	35,391
Non-current assets	587,493	598,042
Total assets	617,400	633,433
Current liabilities	24,877	83,577
Non-current liabilities	129,760	141,236
Total liabilities	154,637	224,813
Members' balances	255,625	255,625
Reserves	(1,597)	(2,123)
Retained earnings	208,735	155,118
Total equity	462,763	408,620
Profit for the year	53,617	17,301
Total comprehensive income for the year	53,617	17,301

(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 2014 or 30 June 2013.

(d) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2014 and 2013.

Directors' declaration

30 June 2014

In the directors' opinion:

- (a) the financial statements and notes set out on pages 61 to 130 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 2014 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 directors.



Glenn Barnes

Chairman



Rohan Mead

Group Managing Director & CEO

South Melbourne, 27 August 2014



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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 statement of financial position as at 30 June 2014, 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(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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Opinion

In our opinion:

the financial report of Australian Unity Limited is in accordance with the *Corporations Act 2001*, including:

giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 51 to 60 of the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
27 August 2014

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	Heritage Timeline	
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	1846	Dr A F A Greeves – Australian Unity archives
	1848	Grand United Order of Odd Fellows certificate – Australian Unity archives
	1850	University of Sydney – State Library of Victoria
	1854	Flinders Street Station – State Library of Victoria
	1861	Toryboy, Winner of the Melbourne Cup, 1865 – State Library of Victoria
Page 27	1864	Train at Station, Victorian Railways – State Library of Victoria
	1871	Australian Natives' Association minute book – Australian Unity archives
	1872	Manchester Unity Greeves Scholarship certificate – Australian Unity archives
	1880	Ned Kelly – State Library of Victoria
	1888	Foundation Day, Exhibition Buildings Melbourne, 1899 – Australian Unity archives
	1890s	Australasian Federal Referendum, July 1899 – Australian Unity archives
Page 28	1895	A Sundowner in Luck, David Syme & Co, 1896 – State Library of Victoria
	1901	Edmund Barton, 1902 – State Library of Victoria
	1901	Australian Commonwealth Proclamation – Australian Unity archives
	1903	Alfred Deakin – Australian Unity archives
	1908	Eight Hours Day Procession, ca. 1902-1910 – State Library of Victoria
	1912	Wattle – Australian Unity archives
Page 29	1914-18	The Parade of the Australian Expeditionary Force - lunch time at Royal Park, Melbourne, 1914 – State Library of Victoria
	1914-18	Unknown Australian soldier, A W Melrose – State Library of Victoria
	1915	ANA Roll of Honour Gallipoli, 1915 – Australian Unity archives
	1928	De Havilland DH-83 Fox Moth in a paddock at Mannahill, ca.1938 – State Library of South Australia
	1932	Manchester Unity Building – Australian Unity archives
	1932	Sydney Harbour Bridge, ca. 1935 – State Library of Victoria
Page 30	1939-45	Four World War II bombers, ca. 1945 – State Library of Victoria
	1939-45	Four soldiers outside tent, Labuan, ca. 1945 – State Library of Victoria
	1956	Olympic Games 22/11/56 - 8/12/56 – Arthur Gordon Fraser, photographer; State Library of Victoria
	1962	Manchester Unity Aged Members Centre, Glen WaverleyVictoria – Australian Unity archives
	1971	ANA centenary Official Post Office Cover – Australian Unity archives
	1990	Manchester Unity sesquicentenary – Australian Unity archives



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