ASX Announcement

28 August 2013

# Australian Unity Group increases revenues and profit despite challenging environment

Financial services, healthcare and retirement living company Australian Unity Limited (Australian Unity) has reported revenues[1] of $1.21 billion for the year ending 30 June 2013, an increase of 8.2 percent over the previous year.

The Group's profit after tax was $29.4 million, an increase of 31.7 percent compared to the previous year. Profit before tax was up 59.5 percent to $35.4 million. This result was largely attributable to organic growth of core activities, supported by a strong investment performance result driven by the contribution of internal and related investment managers.

These financial results were achieved notwithstanding a number of material external and internal factors. These included higher claims costs in the healthcare business; continued multi-million dollar business investments; regulatory adjustment costs that affected the majority of the Group's businesses; and costs incurred by the decision to simplify some of the entity structures within the Group.

The impact of these factors on the trading result was significantly offset by the underlying growth and development of the operations generally and the investment management performance. In aggregate, operating earnings declined 8.6 percent to $31.6 million.

**RESULT OVERVIEW:**

- **Revenues $1.21 billion, up 8.2%**
- **Operating earnings $31.6 million, down 8.6%**
- **Profit before tax $35.4 million, up 59.5%**
- **Profit after tax $29.4 million, up 31.7%**
- **Members' funds $479 million, up 6.6%**
- **Health claims paid $599 million, up 12.0%**
- **Funds under management $7.1 billion, down 41.7%**
- **Funds under advice $3.1 billion, up 58%**
- **Retirement Living development projects of $515 million**

[1] Revenues comprise revenue and other income receipts as shown in the statement of comprehensive income in the Annual Financial Report plus life investment contract premium receipts. The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

**ASX code:**
AYU

**Notes on Issue:**
1,200,000

**Issuer:**
Australian Unity Limited
ACN 087 648 888

**Enquiries:**
Australian Unity Notes registry
1300 554 474

**Contact details:**
Australian Unity Limited
114 Albert Road
South Melbourne VIC 3205
**Tel:** 13 29 39

The listing of Australian Unity Notes on the ASX does not affect Australian Unity Limited's status as a mutual organisation

Group Managing Director Rohan Mead said the 2013 result indicated the Group's position remains solid despite the uneven economic and political environment.

Australian Unity is an independent mutual company with 325,000 members and around 600,000 customers. "The Group's strategy is centred on the wellbeing of Australians and building a sustainable portfolio of businesses that foster this wellbeing. The 2013 financial result is pleasing as it represents solid performances from across the portfolio of businesses," Mr Mead said.

"The development and planned diversification of our activities to meet this wellbeing goal is ongoing, and this year's result supports the pursuit of our medium and long term plans in this regard."

The expansion program undertaken by the Group in recent times and the benefits of less volatile financial markets have been significant factors underpinning the Group's increased revenue compared to the corresponding period one year ago.

"The benefits of our diversification strategy were evident in 2013. Despite the reduced operating earnings in our healthcare business, investments in business expansion and significant costs incurred in relation to regulatory and related structural expenses—the Group delivered a 31.7 percent year on year increase in profit after tax," Mr Mead said.

"The company we are continuing to grow and develop is shaped appropriately to address some of the major challenges of our time: the ageing demographic, and its retirement savings needs, the rise of chronic disease, the growing demand for community care, and the urgent need for investments in social infrastructure.

"Our positive 2013 financial result will enable the Group to continue to provide members and customers with relevant and valuable services and aid our further investment and development plans," he said.

**Further information**

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Australian Unity

## Business Unit Results and Highlights

### Healthcare

Australian Unity's healthcare business had a good year despite the impact of further legislative changes and higher claims costs in the retail fund.

The number of retail health fund policyholders increased by 3.5 percent and the number of policyholders in the corporate health fund, GU Health, increased by 4.5 percent. For the third successive year both funds outstripped the industry growth rate of 3.1 percent.

The business recorded an adjusted Earnings Before Interest Tax, Depreciation and Amortisation (EBITDA) of $47.82 million for the year ended 30 June 2013 (2012: $55.19 million).

"While total segment revenue for the combined Healthcare business, which includes both health insurance businesses, the dental business and Remedy Healthcare, increased in 2013, EBITDA was impacted by an increase in claims significantly linked to the strong growth in policyholder numbers in prior years," Mr Mead said.

"During the year, our preventative health business, Remedy Healthcare marked another milestone—twelve thousand people have now participated in one or more of its programs. In total we have now invested more than $71 million in the development of a range of programs and payment of preventative health benefits. Our expertise in preventative health is in strong demand."

Other highlights of the year included the launch of two new programs for customers with Chronic Obstructive Pulmonary Disease and Peripheral Vascular Disease, through Remedy Healthcare, and the trial of Australian Unity Connect with 5,000 customers.

### Investments

During the year Australian Unity Investments continued to diversify its business, building on its range of products and service offerings. Traditionally, this business has delivered products and services through Australia's financial adviser network, and while continuing to build on its services to this sector, also boosted its capacity to attract individual customers directly, and to market investment products to large institutions such as superannuation funds.

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The broad trend for Australian Unity Investments was of above-average performance across its investment portfolios. This strong investment performance was typified by the results of its balanced growth portfolio, which produced a return of 17.8 percent for the year. This exceeded the return of 14.7 percent for the average Australian superannuation fund balanced option. The Australian Unity Investments team also manages the investment portfolio of the Australian Unity Group, and during the year achieved a return of 7.3 percent on the Group's investment assets, 4 percent ahead of its benchmark, contributing further to the Group's profit result.

The positive achievements of the investment management team also strongly supported the Lifeplan entity's successful transition to the new regulatory capital standards.

"A further highlight for the year was the launch of the Pro-D range of managed funds for financial advisers, which was developed in conjunction with Australian Unity Personal Financial Services. The Pro-D funds are a cost effective and tax efficient range of diversified investment funds with more sophisticated asset allocation strategies than are generally available with most off-the-shelf managed investment products," Mr Mead said.

Australian Unity Investments recorded a 23 percent increase in revenue to $111.7 million and an increase in adjusted Earnings Before Interest, Tax, Depreciation and Amortisation to $15.35 million for the year ended 30 June 2013 (2012: $12.49 million).

Despite its strong investment and business results, Funds Under Management (FUM) decreased during the year to $7.1 billion at 30 June 2013 (2012: $12.2 billion). This was the first time FUM had reduced in a decade, and was the result of the resignations of key staff of Vianova Asset Management, a fixed interest fund manager. This impact on FUM did not result in a material effect on profits, however, due to the low margins in that particular asset class. The FUM result was also offset in part by large mandates won by our other joint venture asset managers, including Platypus Asset Management.

The Investments business also undertook a significant program of structural simplification during the year and, following 30 June, merged its two friendly societies into a single entity, reducing the complexity of the company and creating future efficiencies.

Big Sky Building Society traded well during the year and the benefits of full integration, following Big Sky joining the group in the prior year, are now being realised. This is reflected in an improved capital adequacy ratio which increased to 16.5 percent in 2013 from 14.9 percent.

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**Retirement Living**

During the year, Australian Unity Retirement Living continued to grow both organically and through acquisition and recorded an increase in EBITDA to $12.63 million compared to the previous year (2012: $7.80 million).

Home care was a key growth area of the business in 2013. Australian Unity Retirement Living provides home care in retirement villages and in the general community, either in its own right or on behalf of other organisations such as local councils, local health services and not-for-profit organisations.

"With the acquisition of Melbourne-based business Better at Home Care in December, Retirement Living doubled the number of carers providing in-home and community care services to clients. By the end of the year we had effectively tripled the number of staff and clients in our home care operations," Mr Mead said.

"The business also continued to make good progress on delivering the very substantial development pipeline that is highlighted by the $180 million Carlton Wellbeing Precinct under construction in inner Melbourne," Mr Mead said.

During the year Australian Unity Retirement Living developed an innovative model of care that was trialled at Wahroonga Aged Care. 'Better Together' is an alternative to the traditional service model in residential aged care enabling more resident choice and service flexibility. The 12-month trial started in January at the remodelled 18-bed section of the facility, which has been designed to be more home-like with a central open living room, domestic style kitchen and dining designed to support residents' longer term mobility and independence. Subsequent to 30 June, the trial program won the prestigious national 2013 HESTA Aged Care Award for team innovation.

The Federal Government's *Living Longer, Living Better* aged care reforms were passed at the end of the year under review.

"While Australian Unity believes the reforms are a step in the right direction, they are too limited in scope and policy concerns expressed by those in the sector were not adequately addressed before the legislation was passed. Australian Unity believes the recommendations of the 2011 Productivity Commission's review into aged care, Caring for Older Australians, should be revisited and used to guide further reform with the purpose of increasing consumer access to, and control of, services, and establishing a more sustainable infrastructure platform," Mr Mead said.

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## Personal Financial Services

The positive contribution from advisory business Australian Unity Personal Financial Services was a highlight of Australian Unity's year. The business increased EBITDA to $2.09 million in the year to 30 June 2013 (compared to a loss of $2.64 million in 2012), grew its funds under advice by 58 percent and almost doubled its revenue to $34 million.

"After several years of careful investment in building the business, Personal Financial Services achieved profitability as planned in 2013. 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," Mr Mead said.

The number of accounting firms in the Australian Unity Personal Financial Services referral partner program increased by 14 percent to 277 at 30 June 2013 (2012: 242).

The number of advisers grew from 109 to 118. While this was a slower growth rate than previous years it reflected the business' focus on replacing a number of underperforming advisers with higher quality advisers. As a direct result average revenues and funds under advice per adviser increased significantly.

Mortgage broking contributed to the increase in earnings and the business now has 21 brokers, with $492 million in loans under advice at 30 June 2013, compared to $432 million at 30 June 2012.

During the year, this business had to invest significant time and effort in complying with a range of regulatory reforms. These included the Future of Financial Advice (FoFA) reforms; the Stronger Super reforms; the Tax Agents Services Act; and the Accountants' licensing reforms.

"While it is too early to determine the degree to which the bulk of these reforms will actually improve investor protection, they added significantly to the volume of paperwork and costs associated with the advice process. However, as a result of the work undertaken, Personal Financial Services is 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," Mr Mead said.

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# Australian Unity Limited

ABN 23 087 648 888

# Annual financial report for the year ended 30 June 2013

# Australian Unity Limited ABN 23 087 648 888
# Annual financial report - 30 June 2013

## 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 2013.

**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
John Butler, Director
Eve Crestani, Director
Ian Ferres, Director
Stephen Maitland, Director
Peter Promnitz, Director (appointed 1 January 2013)
Warren Stretton, Director
Greg Willcock, Director

**Company secretaries**
Kirsten Mander and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2013.

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

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

No dividend was paid by the majority-owned subsidiary to a non-controlling interest during the year (2012: $389,000).

**Operating and financial review**
In 2013 the Group's effective conduct of its core activities led to an increase in profit after income tax to $29,410,000, 31.7 percent above 2012's $22,332,000. This strong financial result was due to the ongoing operational development of our activities and investments in customer service across the Group's portfolio of businesses despite still patchy economic conditions and notwithstanding increasing, and costly, regulatory restrictions.

Revenue and other income increased by more than 10 percent to $1,141,787,000, with revenue growth experienced across all of Australian Unity's businesses and improved investment returns more than offsetting the expanding business' cost increases. Total expenses, including health insurance claims, were 9 percent higher at $1,063,897,000.

The focus in 2013 has largely been one of organic growth in pursuit of our strategy of serving the wellbeing needs of Australians. Longer term plans are in development to extend the reach of services and products to enable millions to enjoy wellbeing.

**Operating and financial review (continued)**
The strategy requires us to continue to build a commercial, sustainable portfolio of businesses that foster wellbeing.

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

Key aspects of the operating, financial and strategic performance and business risks of each Group business 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 (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.

***Healthcare***
Australian Unity's retail and corporate health funds make it one of Australia's largest private health insurance providers, with 223,279 policyholders throughout Australia. Services are delivered almost entirely by telephone and online, which helps the funds operate with a lower administrative cost structure.

Building on retail and corporate health insurance policyholder growth and activity in the dental business and Remedy Healthcare, total segment revenue for the combined Healthcare business was $735.22 million in the latest year (2012: $668.99 million).

Higher claims costs in the retail fund and continued investment in preventative health, chronic disease management and in-home services contributed to a decline in Australian Unity Healthcare's adjusted EBITDA to $47.82 million for the year ended 30 June 2013 (2012: $55.19 million). To a significant degree, higher claims were the result of higher rates of growth in policyholders over recent years. These higher growth rates have later year effects on claims levels, so the increase in claims had been anticipated.

A series of legislative changes to private health insurance dominated the activity of Australian Unity's Healthcare operations in the year to 30 June 2013.

Means testing of the Federal Government's private health insurance rebate, introduced on 1 July 2012, was one of a number of new rules that affected the fund. Many Australian Unity customers pre-paid their policies for up to 18 months to delay the impact of these changes on their household budgets.

Other legislative changes included the exclusion of the Lifetime Health Cover loading from premiums eligible for the Federal Government rebate. This became effective on 1 July 2013 with minimal time afforded to the industry to prepare for its implementation.

More new rules are on the way, with indexation of the private health insurance rebate scheduled to begin on 1 April 2014, a change that will affect every health fund policyholder.

The fundamental nature of these changes created a high administrative workload and additional costs for Australian Unity Healthcare, with no benefits for members or customers.

**Operating and financial review (continued)**
***Healthcare (continued)***

Looking ahead, Australian Unity Healthcare is confident of continued growth in its customer base because of its high quality, innovative services, including market-leading preventative health programs.

However, fund profitability is under increasing pressure from rapidly rising medical and healthcare costs, an ageing population and recent government imposed rule changes, which have added to the complexity of fund administration.

These changes have also made product offers increasingly difficult for customers to understand, which is another risk to growth.

*Retail health insurance*
The number of retail health fund policyholders increased by 3.5 percent to 196,796 at 30 June 2013 (2012: 190,097). The increase in policyholders outstripped the industry growth rate for the third successive year, and was driven by growth outside Victoria.

Benefits were increased in a number of areas, including dental benefits and remedial massage. Australian Unity also expanded its health support programs, which help customers stay healthy, recover faster or better manage serious medical conditions.

The average premium increase for Australian Unity customers, at 5.2 percent, was kept below the industry average of 5.6 percent, and below the average of all major competitors.

This was the 10th time in 12 years Australian Unity Healthcare lifted premiums at a lower rate than the industry average. In 2013 this was achieved despite an inflation rate of 8.5 percent in the cost of health, medical, hospital and dental services.

Despite the distraction and the need to expend millions of dollars on preparing for regulatory changes, Australian Unity continued to deliver industry-leading claims processing turnaround times for customers.

Australian Unity also continued to make significant investments in customer care and operational efficiencies to ensure customers receive the best service possible.

During the year, the retail fund trialled a new program known as Australian Unity Connect with 5,000 customers. The program involves outbound calls to put customers in touch with community healthcare services in their local area relevant to their age and likely needs. Unlike a preventative health program, the contact is not driven by a recent claim or medical history. This new service is a further example of the business continuing to create new ways to add value to customers and support them to improve their health.

*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 by 4.5 percent to 26,483 at 30 June 2013 (2012: 25,344).

Legislative change was also a burden for GU Health. The fund worked with clients to maximise the benefits of a new payments system that allows corporate clients to split premium payments with their employees. This new feature was launched in the previous year in response to the introduction of means testing of the private health insurance rebate.

**Operating and financial review (continued)**
***Healthcare (continued)***

*Preventative healthcare - Remedy Healthcare*
Australian Unity is a leader in preventative healthcare programs that help members stay healthy, speed recovery and better manage disease and illness.

Over the past six years, more than $71 million was invested in the development of a range of programs and payment of preventative health benefits. These programs are designed to not only make members healthier, but to reduce the level of claims and contain rises in premiums.

Twelve thousand people have now participated in one or more programs over the past six years.

Australian Unity's preventative health expertise is in strong demand from other health insurers and is made available by commercial arrangement through Australian Unity's preventative health business, Remedy Healthcare.

Remedy provides health coaching for primary prevention and chronic disease, maternity support, early discharge services, hospital care at home, and in-home rehabilitation.

Two new programs were introduced in the past year for customers with Chronic Obstructive Pulmonary Disease and Peripheral Vascular Disease.

Another highlight of the year was the Integrated Care Program, launched initially in 2012. The program is designed for members who have had three or more hospital admissions in the previous 12 months. Phone coaching by a registered nurse helps participants identify their health risks and better manage their conditions.

*Dental*
Australian Unity operates four dental clinics, located in the Melbourne CBD, South Melbourne, Box Hill and Rowville. The number of patient visits during the year increased by 4 percent to 54,382 (2012: 52,284). As part of our planned capital works program, the Melbourne CBD practice, which opened in late 2002, has been upgraded with a fresh new look, and state-of-the-art patient chairs and clinical delivery systems. All practices will, over the coming year, benefit from a number of exciting change initiatives designed to maintain the level of quality care delivered to, and enhance the service experience for, all of our patients. In addition, and in response to customer feedback, we plan to progressively expand interstate in the near to medium term.

*Healthcare's strategies and outlook*
Australian Unity Healthcare's strategy is to empower customers to improve their health and change the way healthcare is delivered. To do so Australian Unity Healthcare must compete with other health insurers by providing a higher quality of product benefits and customer service and to supplement the traditional insurance business with evidence-based chronic disease and preventative health services that are designed to improve health outcomes and reduce the pressures of claims inflation.

Customers who responded to the means testing of the private health insurance rebate last year by pre-paying their premiums will be coming off these prepayment schedules over the first six months of the current financial year. During this time more policyholders may choose to downgrade their existing cover or drop it altogether. Despite the challenges facing the sector, Australian Unity believes its strategic approach of focusing on value, product and service expansion and innovation is the appropriate and best response in a period when increasing pressure on government budgets means that consumers will be forced to fund more and more of their healthcare costs.

**Operating and financial review (continued)**
***Retirement Living***
Australian Unity Retirement Living continued to grow organically and through acquisition during the year, and increase its financial contribution to group results.

Segment revenue grew by 14 percent to $73.07 million while adjusted EBITDA increased to $12.63 million in the year to 30 June 2013 (2012: $7.80 million). These improvements were due to the increasing occupancy of completed stages of retirement villages under development, continuing high occupancy levels at existing retirement villages and residential aged care facilities and the impact of a quiet, but improving residential property market on retirement village price growth.

*Retirement communities*
The business owns and operates 18 retirement communities, including four aged care facilities, in Victoria and New South Wales.

The total number of home units increased to 1,931 (2012: 1,899) with the completion of construction of another 32 units at Mornington and Vermont South in Victoria, and Port Macquarie in New South Wales. The number of aged care beds was unchanged at 451.

*Home care*
Home care is growing rapidly to meet rising consumer demand for assistance in the home with caring for the elderly and those recovering from illness or hospitalisation. It is also in demand from primary care givers in need of respite.

Home care, formerly known as community care, was a key growth area of the business. Australian Unity Retirement Living provides home care in retirement villages and in the general community, either in its own right or on behalf of other organisations such as local councils, local health services and not-for-profit organisations.

The home care services are accredited by ACIMSS (Attendant Care Industry Management System Standard), which provides clients and funders with a high level of assurance about the systems and service quality.

Retirement Living almost doubled the size of its home care business with the December 2012 acquisition of Melbourne-based Better at Home Care. The number of home care staff increased from 72 to 162 following the acquisition.

Total home care revenue increased sharply to $4.98 million (2012: $3.39 million) and this segment now generates approximately seven percent of all Retirement Living revenue.

Australian Unity's home care business plans to grow in the current financial year and beyond, building on tenders won during the year, and a further allocation of 99 Home Care Packages in New South Wales and Victoria, announced in July 2013.

The growth of the sector is highlighted by Federal Government projections for demand for publicly subsidised services, where it has budgeted for a rise from 60,000 to 100,000 Home Care Packages over a five year period (2017-18 to 2021-22) in the Forward Estimates.

*Aged care - Better Together*
Australian Unity Retirement Living developed an innovative model of care that was trialled at Wahroonga Aged Care during the year. Better Together is an alternative to the traditional service model in residential aged care enabling more resident choice and service flexibility. The 12-month trial started in January at the remodelled 18-bed section of the facility, which has been created to be more home-like with a central open living room, domestic style kitchen and dining designed to support residents' longer term mobility and independence.

In August the trial program received the prestigious national 2013 HESTA Aged Care Awards for team innovation. This award recognises the Wahroonga Aged Care team's unique initiative aimed at creating a home-like environment for residents where they have greater control and choice over their activities and excellence in delivering better outcomes for aged care residents.

**Operating and financial review (continued)**
***Retirement Living (continued)***

*Development*
Construction at a number of retirement communities continued during the year, with a highlight being progress at the $180 million Carlton Wellbeing Precinct. The first stage, a 161-bed aged care facility, is due for completion at the end of calendar 2013. The first stage also includes a public cafe, medical and allied health services, gym, hydrotherapy pool, and a day respite centre.

At Peninsula Grange at Mornington, construction is complete on 55 independent living units and a new community centre. Work on a 102-bed aged care facility began at the end of the year in review.

The "continuum of care" vision for Victoria Grange at Vermont South is nearing completion. A community centre and the final stage of independent living units were completed during the year and construction commenced on the independent living apartments, which will complement the villa housing and residential care accommodation options on site. Work is due to be completed by 2015. In addition, construction continued on the 70 unit retirement community, Sienna Grange, in Port Macquarie, New South Wales. There are now 29 units completed at this village.

*Sales*
In New South Wales, solid progress was made with sales at the Lifestyle Manor Village in Bondi, a premium development undertaken as a joint venture with private investors. Full occupancy of the first phase of the project is expected in early 2014.

Occupancy rates across the portfolio of properties continued to meet or exceed industry levels, with an average of 95.5 percent at Australian Unity retirement villages and 97.5 percent at aged care facilities.

Sales of independent living units achieved solid price growth, despite a sluggish residential property market for most of the year.

*Operational improvements*
A number of improvements were made to the core of the business, including the rollout of the PeoplePoint system for client management and billing across all locations.

Operational staff were reorganised into geographical regions to provide better support for the integrated care business model. New regional managers have responsibility for client service and business development, which is expected to lead to further improvements in business growth and customer satisfaction.

*Retirement Living's strategies and outlook*
Australian Unity Retirement Living aims to build on its knowledge of development, asset management, operations and care delivery to provide an integrated response to the accommodation and care needs of an ageing population through the creation of service-rich communities that provide a continuum of care to allow older Australians to age in place in their homes or communities.

The Federal Government's *Living Longer, Living Better* aged care reforms were passed at the end of the year under review. While Australian Unity believes the reforms are a step in the right direction, they are too limited in scope and policy concerns expressed by those in the sector have not been adequately addressed at this stage. The recommendations of the 2011 Productivity Commission's review into aged care, Caring for Older Australians, should be revisited and used to guide further reform with the purpose of increasing consumer access to, and control of, services, and establishing a more sustainable infrastructure platform.

Looking ahead, completion of the first stage of the Wellbeing Precinct at Carlton and further growth in home care are important near-term goals for the business.

**Operating and financial review (continued)**
***Investments***

Australian Unity Investments offers a wide range of high quality managed investment opportunities. Through Big Sky Building Society it also provides banking products such as home loans, savings accounts and term deposits together with investment advice and insurance services.

During the year under review financial markets performed well for investors, with the Australian sharemarket experiencing its strongest rally in six years.

The main benchmark of market performance, the S&P/ASX200 index, increased by 22.75 percent and gained as much as 25 percent before a downturn in the final weeks of the year.

In general, market and economic trends were flat, though patchy. There was some nervousness about United States Government moves to wind down its economic support programs. Locally, there has also been unease about the outlook for the Australian economy beyond the mining investment boom.

However, there are indications that the US and Australian economies may make a successful transition and that the new financial year may be rewarding for investors.

Funds under management decreased during the year to $7.11 billion at 30 June 2013 (2012: $12.2 billion), predominantly attributable to a decrease in funds under management within one of the joint venture partners-Vianova Asset Management-after members of the investment team resigned. Given the relatively low margins earned on fixed interest investments (along with growth in other product areas) there was limited impact on the profitability of Australian Unity Investments.

The total value of funds under management was also reduced by the return of capital to investors following the decision to close the Mortgage Income Trust and High Yield Mortgage Trust.

Despite the reduction in funds under management the business recorded a 23 percent increase in revenue to $111.66 million and an increase in adjusted EBITDA to $15.35 million for the year ended 30 June 2013 (2012: $12.49 million). The Australian Unity Investments team also manages the investment portfolio of the Australian Unity Group, and during the year achieved a return of 7.3 percent on the Group's investment assets, 4.0 percent ahead of its benchmark, contributing further to the Group's overall profit result.

The broad trend for Australian Unity Investments was of above-average performance across the portfolio. The strong investment performance was typified by the results of its balanced growth portfolio, which produced a return of 17.78 percent for the year. This exceeded the return of 14.7 percent for the average Australian superannuation fund balanced option.

Superannuation funds' balanced investment options, those with between 60 percent and 76 percent in growth assets, returned 14.7 percent after fees and taxes in the year under review, according to preliminary figures from SuperRatings. The last time super funds performed better was in the 2007 financial year, when funds returned 15.7 percent (Source: SuperRatings).

A highlight for the year was the launch of the Pro-D range of managed funds for financial advisers, which was developed in conjunction with Australian Unity Personal Financial Services. The Pro-D funds are a cost effective and tax efficient range of diversified investment funds with more sophisticated asset allocation strategies than generally available with most off-the-shelf managed investment products. The Pro-D range helps financial advisers provide a more sophisticated solution for clients with lower investment balances and reflects a key shift in market trends towards smarter but simpler managed funds that offer value for money.

**Operating and financial review (continued)**
***Investments (continued)***

Australian Unity Investments also teamed with Australian Unity Personal Financial Services to launch Federation Managed Accounts, an investment platform that allows financial advisers to select a portfolio of complementary investments, including diverse options such as managed funds.

Australian Unity Investments provides investors with access to a diverse range of expert investment managers, each focused on a different sector or investment style. This is achieved through its "in house" expertise as well as with its joint venture partnerships. Its investment offering currently includes: Australian Unity Property and Mortgages, microcap equities in Australia and small cap equities in Asia managed by Acorn Capital, fixed interest managed by Altius Asset Management, Australian equities managed by Platypus Asset Management, international equities managed by Wingate Asset Management and Asian equities managed by Seres Asset Management.

*Equities*
Acorn Capital
Acorn Capital launched the Acorn Capital Asia Small Cap Fund during the year. The Asia Small Cap Fund has achieved a return since its inception of 14.84 percent for the eight months to 30 June 2013. The benchmark return for the same period was 18.37 percent.

The small and microcap sector of the ASX experienced significant losses during the year. The sector is broadly composed of industrials and small cap resources companies. Both sectors went through challenging periods of readjustment, particularly small cap resources following the slowing of the resources boom. Acorn was not immune to this trend, with the Acorn Microcap Trust (wholesale) fund returning -12.79 percent, slightly above the benchmark of -14.07 percent for the year.

Funds under management was $977 million, down from $1.2 billion, reflecting the fall in equity prices.

Platypus Asset Management
Australian equities manager Platypus Asset Management experienced an increase in funds under management and advice to $1.5 billion (2012: $950 million), thanks to a new mandate from a global asset allocation adviser and rising equity values.

The Platypus Australian Equities Trust (wholesale) returned 19.95 percent for the year to 30 June 2013 marginally below the benchmark return of 21.90 percent for the S&P ASX 300 Accumulation Index.

Wingate Asset Management
International equities manager Wingate increased funds under management to $78 million from $56 million during the year. Wingate's fund performed in line with its objectives, providing investors with a less volatile, smoother return profile. The performance of Wingate's global equity fund also benefited (later in the year) from the decline of the Australian dollar with the fund being unhedged.

For the 12 months to 30 June the Wingate Global Equity Fund returned 29.59 percent versus the MSCI Index return of 33.10 percent. This is in line with the fund's approach to provide investors with most of the market's gains and exposure to less of its downside.

Seres Asset Management
Asian equities manager Seres increased funds under management from $40 million to $51 million. The Seres Asian Equities Opportunity Fund returned 35.11 percent for the year to 30 June 2013 outperforming its benchmark the MSCI ACFM Asia Index by 6.44 percent.

**Operating and financial review (continued)**
***Investments (continued)***

*Fixed interest*
Altius Asset Management
Altius' funds under management increased from $364 million to $531 million at year end.

The Altius bond fund returned 4.26 percent for the year ended 30 June 2013. This compared favourably with the Fund's cash benchmark, which returned 3.28 percent and outperformed the funds bond's benchmark, which returned 2.78 percent.

In late January 2013 Altius took over the management of the Strategic Fixed Interest Trust following the resignation of Vianova's key executives. Altius is managing the Trust in line with its stated investment objectives.

The Strategic Fixed Interest Trust returned 2.16 percent for the year, compared to its benchmark of 2.78 percent.

*Australian Unity Property and Mortgages*
The flagship of Australia Unity's unlisted property portfolio is the Healthcare Property Trust. The fund achieved a strong return of 9.22 percent for the year to 30 June 2013.

The fund continues to enjoy strong support from the adviser and investor community because of its stable returns, long lease terms and strong research ratings.

The fund owns 24 high-quality properties across Australia. During the year, it successfully completed a number of large-scale developments in high growth regions, including major extensions to the Beleura Hospital in Mornington, Peninsula Private Hospital in Frankston and Valley Private Hospital in Mulgrave, all in Victoria.

The Retail Property Fund achieved a 6.14 percent return for investors in the year to 30 June 2013, which was a strong result considering the difficult conditions endured by the Australian retail sector. In May 2013, work began on a $65 million expansion of the Waurn Ponds shopping centre in Geelong, Victoria. The property is already the Retail Property Fund's largest investment and will be expanded to become a major regional shopping centre, with 35,000 square metres of retail space, plus offices and services.

The Australian Unity Office Property Fund achieved a return of 11.66 percent for the year to 30 June 2013.

Total funds under management in Australian Unity Investments' unlisted property portfolio decreased during the year to $1.5 billion (2012: $1.7 billion). The reduction in funds under management can be largely attributed to the sale of three properties: 80 Stirling Street in Perth, 218 Bannister Road, Canning Vale, Western Australia and 706 Lorimer Street, Port Melbourne, Victoria.

*Mortgages*
Investors in Australian Unity's mortgage trusts continue to receive their scheduled six-monthly payments in line with the decision to wind up the Mortgage Income Trusts and High Yield Mortgage Trust, and return capital to investors. The mortgage trust industry was negatively affected by the Global Financial Crisis in 2008 and the introduction of a Federal Government guarantee on bank deposits. It has still not regained its appeal for investors. At this stage it is anticipated that the capital in the Australian Unity mortgage trusts will be returned by 2015, when the last of the mortgages in the funds are due to be refinanced.

*Lifeplan*
Lifeplan Australia Friendly Society is Australia's largest provider of investment bonds and education savings plans. The Australian Unity Investment Bond business was merged into the Lifeplan business on 3 July 2013. The combination allows the delivery of more efficient, streamlined and improved services to members of both friendly societies.

Funds under management and administration were steady at $1.9 billion (2012: $1.9 billion).

Lifeplan's NextGen Investment product will be introduced to its financial planners by another major financial institution, allowing more than 1500 new financial planners to have access to the product.

**Operating and financial review (continued)**
***Investments (continued)***

*Big Sky Building Society*
Big Sky Building Society Limited was effectively formed on 1 March 2012 when the business of Big Sky Credit Union was combined with an existing wholly owned building society subsidiary of the Group.

In its first full year as part of Australian Unity Investments, Big Sky Building Society has total on-balance sheet assets of $618 million at 30 June 2013 (2012: $655 million). The reduction in assets reflected a combination of low demand for credit in the Australian economy and strategically managing down high cost excess liquidity. Big Sky also has $569 million in funds under advice (FUA) through its financial planning arm, Big Sky Financial Planning (2012: $258 million). The significant increase in FUA was the result of the acquisition of Brisbane-based financial planning company HN Financial Partners Pty Ltd in June.

Investment was made in Big Sky's digital strategy through upgrading online banking functionality to a standard more comparable with the major banks.

*Investments' strategies and outlook*
Australian Unity Investments' strategy is to build and manage an "all-weather" portfolio of products for long term personal and institutional investors, supporting the establishment of social infrastructure and increasing retirement savings and aiming for cyclical resilience.

There are a number of risks inherent in operating investment businesses; nevertheless, Australian Unity Investments remains confident that its diversified business model, strongly focused on portfolio performance will continue to offer value for investors.

***Personal Financial Services***
Australian Unity's financial advice business, Personal Financial Services, continued to record exceptional growth and achieved its first annual surplus.

Funds under advice grew by 58 percent to $3.1 billion (2012: $1.96 billion) during 2013, leading to an 86 percent increase in segment revenue to $33.69 million (2012: $18.03 million).

After several years of careful investment in building the business, Australian Unity Personal Financial Services achieved a positive contribution as planned in the year under review. 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.

EBITDA increased to $2.09 million in the year to 30 June 2013, compared to a loss of $2.64 million in 2012.

*Advisers*
The number of advisers grew from 109 to 118. This is a slower growth rate than previous years and reflected the effort of replacing a number of less effective advisers with more experienced advisers. As a direct result, average revenues and funds under advice per adviser have increased significantly.

*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 by 14 percent to 277 at 30 June 2013 (2012: 242).

*Mortgage broking and general insurance*
Mortgage broking contributed to the increase in earnings. The business now has 21 brokers, with $492 million in loans under advice at 30 June 2013, compared to $432 million a year earlier.

During the year, the business also assumed responsibility for Australian Unity's retail general insurance and car insurance services. General insurance broking will be added to the range of services in the 2014 financial year.

**Operating and financial review (continued)**
**Personal Financial Services (continued)**

*Regulatory reforms*
Throughout the year, the business also had to invest significant time and effort in complying with a range of regulatory reforms, including the Future of Financial Advice reforms; the Stronger Super reforms; the Tax Agents Services Act; and the Accountants' licensing reforms. Most of these legislative reforms had a planned start date of 1 July 2013, although in late June implementation of the Tax Agents Services Act was deferred for 12 months.

Unfortunately the bulk of these reforms do little to improve investor protection and have added significantly to the volume of paperwork and costs associated with the advice process. However, as a result of the work undertaken, Australian Unity is 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.

*Personal Financial Services' strategies and outlook*
Working closely with other professional advisers, Australian Unity Personal Financial Services provide professional strategic advice to help our 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. We create a compliant, resource-rich and thought-leading environment for our Australia-wide network of experienced self-employed and employed financial advisers to enable them to efficiently and confidently provide each of their clients a detailed, robust and tailored blueprint for financial success.

Looking ahead, revenues of the business are planned to continue significant growth over the next year based on continued strong growth in funds under advice. Growth will flow from further increases in the number of advisers and referral partners, and the launch of the Federation Managed Accounts, in partnership with Australian Unity Investments and joint venture partner Fedinvest Pty Limited.

The outlook for the medium to long term is encouraging. There are risks to achieving growth objectives, such as a sharp downturn in global financial markets or unforeseen impacts on industry revenues from the introduction of the federal government's legislative changes to the industry, known as the Future of Financial Advice and MySuper, from 1 July 2013. However, it is likely the competitive advantages of the Australian Unity Personal Financial Services business model will be strengthened relative to others in the context of these recent legislative changes.

**Significant changes in the state of affairs**
Total members' funds increased to $478,675,000 at 30 June 2013 (2012: $448,993,000), an increase of $29,682,000. This movement reflects profit for the year offset by movements in reserves and entitlements of non-controlling interests.

**Matters subsequent to the end of the financial year**
On 3 July 2013, the Australian Prudential Regulatory Authority (APRA) approved the total transfer of the business of Australian Unity Investment Bonds Limited (AUIBL) to Lifeplan Australia Friendly Society Limited (LAFS) under the *Financial Sector (Business Transfer and Group Restructure) Act 1999*. As this was a voluntary transfer at the request of AUIBL and LAFS there was no consideration paid and, as the transfer took place wholly within the Group, there was no impact on the Group's financial position or results.

On 11 July 2013, the Group repaid the $25,000,000 subordinated capital notes outstanding as at 30 June 2013 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% per annum. On the same day, the Company entered into a hedge contract for five years to swap the variable component of the interest rate at 3.71% per annum. With the hedge contract, the effective interest rate of the new notes is fixed at 6.71% per annum until 11 July 2018.

The board is not aware of any other matter or circumstance arising since 30 June 2013 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

**Likely developments and expected results of operations**
The existing prudential capital requirements applicable to the Group's health insurance entities will be replaced by new capital standards effective 1 January 2014. The new proposed standards generally increase the solvency and capital adequacy requirements. In June 2013 the Private Health Insurance Administration Council (PHIAC) released two papers for comment in relation to the review of the solvency and capital adequacy standards applicable to private health insurers. The Group expects its health insurance entities to be able to meet the new requirements.

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

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

The Group is subject to a wide variety of markets, particularly financial markets and property markets. Note 3 contains an explanation of the Group's approach to market risk management.

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

**Information on directors**

***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 was previously a director of Lion Nathan Ltd. Mr Barnes has not held any directorships of listed entities in addition to those set out above during the last three years.

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

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

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

**Information on directors (continued)**

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

***STEPHEN MAITLAND, OAM, RFD, BEc, MBus, LLM, FCPA, FAICD, FCIS, FAIM, FFin***
Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries, chairman of the Audit and Compliance Committee, and a member of the Investment Committee and Risk Committee. He is a director of the Royal Automobile Club of Queensland Limited, RACQ Insurance, Centrepoint Alliance Finance Ltd and of several private companies. He is also a councillor of the Queensland Division of CPA Australia, chair of the Audit and Risk Committee of the Public Trustee of Queensland, and is an independent member of several audit and compliance committees. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 40 years' experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. 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 and a member of the Investment Committee and Human Resources, Remuneration and Nominations Committee. He is a director of Marsh Mercer Holdings (Australia) Pty Ltd, SFG Australia Limited and 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. 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, FCSA, 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.

**Information on directors (continued)**

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

**Company secretaries**
***KIRSTEN MANDER, LLM, FAICD, FCIS, FRMIA, General Counsel & Company Secretary***
Ms Mander was appointed General Counsel and Company Secretary of Australian Unity Limited in 2009. She is responsible for Group Governance Services, including legal and company secretarial affairs, risk management and compliance. Ms Mander has had extensive experience as a senior executive, general counsel and company secretary of a number of Australia's top companies, including Sigma Pharmaceuticals, TRUenergy, Smorgon Steel Group and WMC Resources. She is also chair of the Victorian Assisted Reproductive Treatment Authority and a director on several other boards including the Consultative Council for Clinical Trial Research and MEGT Australia.

***CATHERINE VISENTIN, CSA(Cert), Assistant Company Secretary***
Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group companies in 2004. She has over 18 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 2013, 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 | 11 | 11 | - | - | - | - | - | - | 5 | 5 |
| Rohan Mead | 11 | 11 | - | - | - | - | - | - | - | - |
| John Butler | 11 | 11 | 5 | 5 | 4 | 4 | - | - | - | - |
| Eve Crestani | 11 | 11 | - | - | 4 | 4 | - | - | 5 | 5 |
| Ian Ferres | 11 | 11 | 5 | 5 | - | - | 6 | 6 | - | - |
| Stephen Maitland | 10 | 11 | 5 | 5 | 4 | 4 | 5 | 6 | - | - |
| Peter Promnitz | 5 | 5 | - | - | - | - | 2 | 2 | 1 | 1 |
| Warren Stretton | 11 | 11 | 5 | 5 | - | - | 6 | 6 | 5 | 5 |
| Greg Willcock | 11 | 11 | 5 | 5 | - | - | - | - | - | - |

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 Ian Ferres is Chairman of the Investment Committee. Rohan Mead is an ex-officio member of all committees.

Glenn Barnes's 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**

This Remuneration report relates to Company performance for the year ending June 2013. This means that where information is included on individual remuneration it is a combination of incentive payments (where applicable) for the financial year ending 2012 that were paid in October 2012, together with ongoing remuneration paid during the financial year ending 2013.

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 2013 ('Year'). It has been prepared and audited as required by the *Corporations Act 2001* ('the Act'). The report covers all Key Management Personnel of the Group.

**1. Overview**

The board of Australian Unity Limited considers that its remuneration framework plays an important part in driving the successful performance of the Group and in turn the creation and delivery of value for members. In establishing the overall remuneration framework, including its governance, the board and its Human Resources, Remuneration and Nominations Committee ('HR Committee') have had particular regard to the purpose and structure of the company, the business' strategies, market conditions and expectations of relevant stakeholders. The remuneration framework has remained consistent from the 2012 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 servicing over 196,000 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 Group. This is a unique business that provides evidence based health care to members, corporates and other private health funds across Australia. This growing business has already provided services to more than 12,000 patients;
- The Group develops and currently operates 18 retirement communities, including four aged care facilities across New South Wales and Victoria, with growth planned for more communities;

**Remuneration report (continued)**

- Australian Unity is growing the retirement and aged care services provided to the community and in people's homes;
- The Group manages and develops property in retirement and aged care, and also as part of a number of property trusts across all property sectors including healthcare, industrial, office and retail. The aggregate development pipeline being managed by the Group currently exceeds $515 million;
- Australian Unity operates a diversified financial services business with over $7 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 manages Big Sky Building Society Limited, a medium sized operation with a range of personal banking products and services;
- 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 $3.1 billion; and
- Overall, the Group provides services to some 324,000 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.

**Remuneration report (continued)**

### 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 | Non-executive Director – Chairman |
| John Butler | Non-executive Director |
| Eve Crestani | Non-executive Director |
| Ian Ferres | Non-executive Director |
| Stephen Maitland | Non-executive Director |
| Peter Promnitz[1] | Non-executive Director (part year) |
| Warren Stretton | Non-executive Director |
| Greg Willcock | Non-executive Director |

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

1 Appointed 1 January 2013

'*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 Executives, taking account of the competitive environment. The benchmarking advice provided indicated that both the remuneration structure and actual remuneration paid to executives was in line with the relevant markets.

The amount paid to the Godfrey Remuneration Group during the Year was $24,850. They have also provided similar services in relation to this report that are post balance date and ongoing. These amounts will be disclosed in the 2014 report.

**Remuneration report (continued)**

Godfrey Remuneration is an independent remuneration adviser. 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.

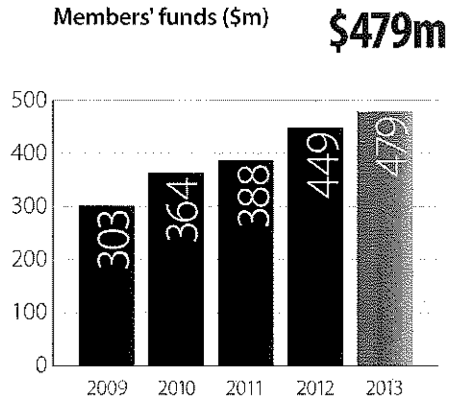
In so far as financial objectives are concerned, the short term performance measures for Key Management Personnel are primarily profitability based and the long term performance measures for KMP are primarily net asset growth based.

In respect of the short term measures, the Group's financial performance over the 2012 year (measured by Profit after Income Tax) is relevant. The short term performance payments in this report were paid to reward the $22,332,000 profit achieved in 2012. This profit was a decrease from the 2011 year and the short term incentives paid recognised varying performance of the different divisions. It should be noted that short term incentives were not paid to the Group Managing Director and two of the Executives leading divisions that did not meet their internally set performance targets. This outcome demonstrates the clear links between pay and performance in the Group's remuneration structure. The results in 2013, reported in other sections of this report, will form the basis for remuneration decisions that will be reported in the 2014 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.

**Remuneration report (continued)**

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 2012 year, Australian Unity achieved steady growth in customer and member services, in both volume and breadth, continuing the steady growth of recent years. A number of the other relevant key performance highlights are set out in the 2012 annual report which is available online at australianunity.com.au.

The Group's performance during the 2012 year across all measures was 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. In particular, consideration was given to the fact that Australian Unity has several business areas, which in recent years have been growing strongly and are structured for continued substantial growth.

## 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<br>(1 year assessment period) | Long Term Incentive<br>(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 at risk remuneration will be earned if the performance conditions are not met. For further details of the relative proportion of fixed and performance based remuneration of KMP see table 6.2.

All remuneration, both fixed and 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.

**Remuneration report (continued)**

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.

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 years' outcomes. Participation in the scheme is also subject to all relevant laws in respect to remuneration.

**4.3.1 Short Term Incentive: Senior Executives except Group Managing Director**
Australian Unity's 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 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.

**Remuneration report (continued)**

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 can adjust the LTI arrangements to address any unusual changes in members' funds, for example related to the disposal or acquisition of assets. 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 2012, the required Threshold Growth Rate was 7.0 percent per annum compound; and
- Target Rate: A Target Growth Rate, reflecting the target rate the board wants the participants to achieve. By way of example, under the LTI granted in October 2012 the required Target Growth Rate was 8.75 percent per annum compound.

**Maturity:**

- Number Available for Exercise: If the Threshold Rate is not achieved by the Maturity Date, no performance rights may be exercised. If the Target Growth Rate is achieved or exceeded, all performance rights may be exercised. Between Threshold Rate and Target Rate the number of performance rights which may be exercised increases on a straight line between the Threshold Rate (at which zero percent is available) and the Target Rate (at which 100 percent is available).
- Value on Maturity: The value of each performance right on maturity is calculated as follows:
    - The value of a notional performance right is calculated, equal to $10, augmented by the Adjusted Growth Rate (compound percentage per annum) over the Performance Period. 'Adjusted Growth Rate' means the actual Growth Rate, provided it is equal to or below the Target Rate. If the actual Growth Rate exceeds the Target Rate, the Adjusted Growth Rate equals the Target Rate plus 50 percent of any excess over the Target Rate;

**Remuneration report (continued)**

- 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.

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**Illustrative Example**

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

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

Then:

- The number of rights available for exercise would be 40%, or 40,000 (this is because the 7.7% actual growth rate amounts to 40% of the difference between the Threshold Rate and the Target Rate);
- Each performance right would be worth $0.24. This is calculated using the formula: notional performance right less notional strike price;
- Notional performance right is $10.00 plus three compounding increments of the actual growth rate (in this case 7.7%) = $12.49;
- Notional strike price is $10.00 plus three compounding increments of the threshold growth rate (in this case 7.0%) = $12.25;
- Therefore each performance right is $12.49 less $12.25 = $0.24; and
- Total value at Maturity of all Performance Rights = $0.24 x 40,000 = $9,600

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

**4.3.3 Incentives: Group Managing Director**

The Group Managing Director participates in different 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% 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. As is evident, from the remuneration tables in this report, the amount of variable compensation available to the Group Managing Director above the fixed compensation is indeed subject to significant variation dependent upon achievements against goals and performance measures. 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 during the year and is payable in three tranches over three calendar years, providing employment in the company continues in those payment periods. The board reserves the right to review and potentially reduce to zero future payments of the award in certain circumstances.

**Remuneration report (continued)**

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

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

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

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

**4.4 Non-monetary benefits**

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

**5. Non-executive director remuneration**

Australian Unity Limited's constitution and board charter require that directors meet a variety of standards in order to be eligible to remain directors of the board. These include membership of Australian Unity Limited and meeting 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 STI, LTI or any other incentives or options are payable to non-executive directors.

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

**Remuneration report (continued)**

## 6. Remuneration tables

### 6.1 Remuneration for the years ended 30 June 2013 and 2012

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

| Name | Year | Fixed: Cash salary and fees[1] $ | Fixed: Non-monetary benefits[1,4] $ | Fixed: Superannuation contributions[2] $ | Variable: Cash bonus (Annual incentive or STI)[1] $ | Variable: Cash bonus (Deferred incentive or LTI)[3] $ | Total remuneration $ | Increase in long service leave provision[3] $ | Increase in retirement benefits provision[2,5] $ |
|---|---|---|---|---|---|---|---|---|---|
| *Non-executive directors* | | | | | | | | | |
| Glenn Barnes, Chairman | **2013** | **250,000** | - | - | - | - | **250,000** | - | - |
| | 2012 | 140,096 | - | - | - | - | 140,096 | - | - |
| John Butler | **2013** | **101,929** | - | **23,071** | - | - | **125,000** | - | - |
| | 2012 | 94,676 | - | 35,324 | - | - | 130,000 | - | - |
| Eve Crestani | **2013** | **112,408** | **2,475** | **10,117** | - | - | **125,000** | - | **18,101** |
| | 2012 | 116,968 | 2,505 | 10,527 | - | - | 130,000 | - | 20,121 |
| Ian Ferres | **2013** | **125,000** | - | - | - | - | **125,000** | - | **18,117** |
| | 2012 | 128,038 | 1,962 | - | - | - | 130,000 | - | 19,821 |
| Stephen Maitland | **2013** | **114,590** | **97** | **10,313** | - | - | **125,000** | - | - |
| | 2012 | 117,311 | 2,131 | 10,558 | - | - | 130,000 | - | - |
| Peter Promnitz *(appointed 1 January 2013)* | **2013** | **56,898** | - | **5,121** | - | - | **62,019** | - | - |
| Warren Stretton | **2013** | **104,559** | - | **20,441** | - | - | **125,000** | - | - |
| | 2012 | 89,679 | 82 | 40,239 | - | - | 130,000 | - | - |
| Greg Willcock | **2013** | **112,617** | **2,247** | **10,136** | - | - | **125,000** | - | - |
| | 2012 | 38,286 | 95 | 3,446 | - | - | 41,827 | - | - |
| *Non-executive directors whose appointment ceased during 2012* | | | | | | | | | |
| Alan Castleman *(ceased 31 May 2012)* | 2012 | 188,353 | 1,455 | 50,000 | - | - | 239,808 | - | 51,077 |
| Warren French *(ceased 25 October 2011)*[6] | 2012 | 27,110 | 719 | 16,594 | - | - | 44,423 | - | - |
| Kate Spargo *(ceased 31 December 2011)* | 2012 | 61,927 | - | 5,573 | - | - | 67,500 | - | - |
| **Sub-total Non-executive directors** | 2013 | 978,001 | 4,819 | 79,199 | - | - | 1,062,019 | - | 36,218 |
| | 2012 | 1,002,444 | 8,949 | 172,261 | - | - | 1,183,654 | - | 91,019 |
| *Executives* | | | | | | | | | |
| Rohan Mead, Group Managing Director | **2013** | **985,886** | **2,396** | **24,999** | - | **370,833** | **1,384,114** | **27,237** | - |
| | 2012 | 940,866 | 2,363 | 25,000 | 400,000 | 343,333 | 1,711,562 | 36,156 | - |
| David Bryant | **2013** | **641,820** | **95,585** | **16,470** | - | **114,329** | **868,204** | **17,554** | - |
| | 2012 | 624,643 | 92,082 | 15,775 | 213,000 | 115,380 | 1,060,880 | 23,328 | - |
| Anthony Connon | **2013** | **499,415** | **2,396** | **16,470** | **95,625** | **53,145** | **667,051** | **15,629** | - |
| | 2012 | 487,148 | 2,806 | 15,775 | 228,250 | 50,057 | 784,036 | 19,457 | - |
| Amanda Hagan | **2013** | **552,629** | **2,836** | **16,470** | **196,000** | **52,768** | **820,703** | **15,546** | - |
| | 2012 | 527,181 | 2,772 | 15,775 | 250,000 | 49,703 | 845,431 | 20,314 | - |
| Derek McMillan | **2013** | **500,940** | **5,990** | **16,470** | - | **67,719** | **591,119** | **15,719** | - |
| | 2012 | 474,008 | 5,945 | 15,775 | 168,750 | 68,340 | 732,818 | 22,601 | - |
| **Total** | **2013** | **4,158,691** | **114,022** | **170,078** | **291,625** | **658,794** | **5,393,210** | **91,685** | **36,218** |
| | 2012 | 4,056,290 | 114,917 | 260,361 | 1,260,000 | 626,813 | 6,318,381 | 121,856 | 91,019 |

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 $275,000 for Ms Eve Crestani and $275,000 for Mr Ian Ferres

**Remuneration report (continued)**

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

The table shows details of the proportions of total remuneration represented by the 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 | 2013 | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | STI | LTI | Total variable | Fixed Remuneration | Total Remuneration | STI | LTI | Total variable | Fixed Remuneration | Total Remuneration |
| David Bryant | | | | | | | | | | |
| Maximum entitlement | **27%** | **28%** | **54%** | **46%** | **100%** | 25% | 30% | 55% | 45% | 100% |
| *Proportion of entitlement paid* | **0%** | **25%** | **13%** | | **53%** | 50% | 24% | 36% | | 64% |
| *Proportion of entitlement not earned* | **100%** | **75%** | **87%** | | | 50% | 76% | 64% | | |
| The variable proportion of total remuneration paid in the year 2013 was 13 percent (2012: 30 percent), as a result of the implementation of the company's incentive policies outlined in this report. | | | | | | | | | | |
| Anthony Connon | | | | | | | | | | |
| Maximum entitlement | **26%** | **21%** | **47%** | **53%** | **100%** | 25% | 22% | 47% | 53% | 100% |
| *Proportion of entitlement paid* | **38%** | **25%** | **32%** | | **68%** | 93% | 24% | 61% | | 81% |
| *Proportion of entitlement not earned* | **62%** | **75%** | **68%** | | | 7% | 76% | 39% | | |
| The variable proportion of total remuneration paid in the year 2013 was 22 percent (2012: 35 percent), as a result of the implementation of the company's incentive policies outlined in this report. | | | | | | | | | | |
| Amanda Hagan | | | | | | | | | | |
| Maximum entitlement | **26%** | **20%** | **46%** | **54%** | **100%** | 25% | 21% | 46% | 54% | 100% |
| *Proportion of entitlement paid* | **70%** | **25%** | **51%** | | **77%** | 100% | 24% | 65% | | 84% |
| *Proportion of entitlement not earned* | **30%** | **75%** | **49%** | | | 0% | 76% | 35% | | |
| The variable proportion of total remuneration paid in the year 2013 was 30 percent (2012: 35 percent), as a result of the implementation of the company's incentive policies outlined in this report. | | | | | | | | | | |
| Derek McMillan | | | | | | | | | | |
| Maximum entitlement | **24%** | **26%** | **50%** | **50%** | **100%** | 22% | 29% | 51% | 49% | 100% |
| *Proportion of entitlement paid* | **0%** | **25%** | **13%** | | **56%** | 75% | 24% | 46% | | 73% |
| *Proportion of entitlement not earned* | **100%** | **75%** | **87%** | | | 25% | 76% | 54% | | |
| The variable proportion of total remuneration paid in the year 2013 was 11 percent (2012: 31 percent), as a result of the implementation of the company's incentive policies outlined in this report. | | | | | | | | | | |

**Remuneration report (continued)**

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

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

| | Long Term Incentive | | | |
|---|---|---|---|---|
| Name | Date when LTI was granted | Number of performance rights | Date when LTI fully matures | Maximum total value of LTI yet to mature[1] $ |
| David Bryant | 1 October 2012 | 595,582 | 1 October 2015 | 363,875 |
| | 1 October 2011 | 581,056 | 1 October 2014 | 355,000 |
| | 1 October 2010 | 744,730 | 1 October 2013 | 455,000 |
| Anthony Connon | 1 October 2012 | 369,932 | 1 October 2015 | 226,013 |
| | 1 October 2011 | 360,909 | 1 October 2014 | 220,500 |
| | 1 October 2010 | 346,180 | 1 October 2013 | 211,500 |
| Amanda Hagan | 1 October 2012 | 419,424 | 1 October 2015 | 256,250 |
| | 1 October 2011 | 491,033 | 1 October 2014 | 300,000 |
| | 1 October 2010 | 343,720 | 1 October 2013 | 210,000 |
| Derek McMillan | 1 October 2012 | 377,482 | 1 October 2015 | 230,625 |
| | 1 October 2011 | 515,585 | 1 October 2014 | 315,000 |
| | 1 October 2010 | 441,110 | 1 October 2013 | 269,500 |

1 The per annum compound Threshold Rates for performance rights granted 1 October 2010, 2011 and 2012 were 7.00 percent, 7.00 percent and 7.00 percent respectively. The maximum total value of LTI yet to mature equates to the amount payable if the per annum compound Target Rate is achieved. The per annum compound Target Rates for performance rights granted 1 October 2010, 2011 and 2012 were 8.75 percent, 8.75 percent and 8.75 percent respectively.

### 6.4 Details of remuneration - 2013 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 2013, the percentage of the available amount that was paid and the percentage that was forfeited because the applicable performance and service criteria were not met to the extent required for the maximum payment. These criteria are set out in section 4.3.3 above. The table also shows details of deferred incentive which is not yet due.

| | Short Term Incentive | | Long Term Incentive | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Paid in 2013[1] % | Forfeited in 2013 % | Calendar award year | Deferred incentive paid or payable % | Deferred incentive forfeited % | Date when tranche due[2] | Value of Deferred Incentive paid in 2013 $ | Maximum total value of Deferred Incentive not yet due $ |
| Rohan Mead | - | 100 | 2012 | 75 | 25 | 31 January 2013 | 127,500 | - |
| | | | | | | 31 January 2014 | - | 127,500 |
| | | | | | | 31 January 2015 | - | 127,500 |
| | | | 2011 | 67 | 33 | 31 January 2013 | 110,000 | - |
| | | | | | | 31 January 2014 | - | 110,000 |
| | | | 2010 | 100 | - | 31 January 2013 | 133,333 | - |

1 Mr Rohan Mead's annual incentive was awarded on 1 October 2012.
2 Mr Rohan Mead's deferred incentive is paid in three equal annual tranches commencing in the January following the calendar year of award, as set out in section 4.3.3.

The variable proportion of total remuneration paid in the year 2013 was 26 percent (2012: 43 percent), as a result of the implementation of the company's incentive policies outlined in this report.

**Remuneration report (continued)**

### 6.5 Contract terms for relevant executives

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

| Name | Employee initiated notice period[1] | Employer initiated notice period[2] | Termination benefit[3] |
|---|---|---|---|
| Rohan Mead, Group Managing Director | 6 months | 12 months | none |
| David Bryant, CEO Investments | 3 months | 3 months | none |
| Anthony Connon, Chief Financial Officer | 1 month | 12 months | none |
| Amanda Hagan, CEO Healthcare | 3 months | 6 months | none |
| Derek McMillan, CEO Retirement Living | 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 variable incentives is set out in section 4.3 above.

**Remuneration report (continued)**

GRG GODFREY REMUNERATION GROUP

Godfrey Remuneration Group Pty Limited

56 Berry Street, North Sydney 2060
Telephone 61-2-8923 5700
Facsimile 61-2-8923 5706
ABN: 38 096 171 247

2 August 2013

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

Dear Ms Crestani,

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

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

As you know GRG has been asked from time to time to provide market practice information and advice to assist Australian Unity's Board to set remuneration policies and practice that are appropriate to its circumstances as a mutual company. During the 2012-13 financial year we conducted a full review of market practices relevant to Australian Unity.

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 will fall within the market practice range observed in a large sample of listed companies of similar size and complexity to Australian Unity. The total remuneration packages continue to place a strong emphasis on performance while not producing excessive total remuneration package outcomes.

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

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

Yours sincerely,

Denis Godfrey
Managing Director

**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 38.

**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:

| | **2013** **$** | 2012 $ |
|---|---|---|
| Ernst & Young Australian firm: | | |
| Audit of regulatory returns | **285,089** | 267,451 |
| Tax compliance services | **443,436** | 288,520 |
| Tax consulting services | **505,868** | 468,976 |
| Other services | **69,043** | 168,644 |
| ***Total remuneration for non-audit services*** | **1,303,436** | 1,193,591 |

**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 32.

**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 2013

EY
Building a better working world

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Melbourne VIC 3000 Australia
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Fax: +61 3 8650 7777
ey.com

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

In relation to our audit of the financial report of Australian Unity Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
27 August 2013

# Australian Unity Limited ABN 23 087 648 888
# Annual financial report - 30 June 2013



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 1 to 11 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 27 August 2013.

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Revenue and other income** | 6 | **1,141,787** | 1,034,275 |
| Expenses, excluding finance costs | 7 | **(1,063,897)** | (974,550) |
| Finance costs | 7 | **(19,316)** | (21,563) |
| Share of net profit of associates and joint ventures | 17 | **4,349** | 1,327 |
| **Profit before income tax** | | **62,923** | 39,489 |
| Income tax expense | 8 | **(33,513)** | (17,157) |
| **Profit after income tax** | | **29,410** | 22,332 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Cash flow hedges | 33(a) | **394** | (3,550) |
| Income tax relating to components of other comprehensive income | 33(a) | **(118)** | 1,064 |
| **Other comprehensive income for the year, net of tax** | | **276** | (2,486) |
| **Total comprehensive income for the year** | | **29,686** | 19,846 |
| Profit for the year is attributable to: | | | |
| Members of Australian Unity Limited | | **29,406** | 22,231 |
| Profit attributable to non-controlling interest | | **4** | 101 |
| | | **29,410** | 22,332 |
| Total comprehensive income for the year is attributable to: | | | |
| Members of Australian Unity Limited | | **29,682** | 19,745 |
| Non-controlling interest | | **4** | 101 |
| | | **29,686** | 19,846 |

*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 46.*

**Australian Unity Limited**
**Consolidated balance sheet**
**As at 30 June 2013**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **1,017,336** | 1,125,181 |
| Trade and other receivables | 10 | **89,632** | 105,135 |
| Inventories | 11 | **619** | 641 |
| Loans and advances | 12 | **23,626** | 25,633 |
| Current tax assets | 13 | **2,556** | - |
| Financial assets at fair value through profit or loss | 14 | **1,213,034** | 1,092,689 |
| Held-to-maturity investments | 15 | **69,736** | 95,378 |
| Total current assets | | **2,416,539** | 2,444,657 |
| **Non-current assets** | | | |
| Financial assets at fair value through profit or loss | 14 | **43,466** | 86,837 |
| Loans and advances | 16 | **517,740** | 514,247 |
| Investments in associates and joint ventures | 17 | **42,783** | 37,552 |
| Other financial assets | 18 | **268** | 1,138 |
| Property, plant and equipment | 19 | **93,492** | 73,296 |
| Investment properties | 20 | **617,109** | 586,565 |
| Deferred tax assets | 21 | **8,672** | 21,177 |
| Intangible assets | 22 | **92,449** | 87,182 |
| Other non-current assets | 23 | **20** | 143 |
| Total non-current assets | | **1,415,999** | 1,408,137 |
| **Total assets** | | **3,832,538** | 3,852,794 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **79,782** | 66,902 |
| Interest bearing liabilities | 25 | **586,194** | 627,202 |
| Current tax liabilities | 26 | **-** | 9,070 |
| Provisions | 27 | **68,543** | 62,993 |
| Other current liabilities | 28 | **546,064** | 536,219 |
| Benefit fund policy liabilities | 44 | **221,513** | 225,453 |
| Total current liabilities | | **1,502,096** | 1,527,839 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 29 | **204,372** | 201,243 |
| Deferred tax liabilities | 30 | **28,215** | 17,331 |
| Provisions | 31 | **3,421** | 2,991 |
| Other non-current liabilities | 32 | **2,808** | 24,906 |
| Benefit fund policy liabilities | 44 | **1,611,718** | 1,628,262 |
| Total non-current liabilities | | **1,850,534** | 1,874,733 |
| **Total liabilities** | | **3,352,630** | 3,402,572 |
| **Net assets** | | **479,908** | 450,222 |
| **EQUITY** | | | |
| Members' balances | | **255,919** | 255,919 |
| Reserves | 33(a) | **1,681** | 1,188 |
| Retained earnings | 33(c) | **221,075** | 191,886 |
| Members' balances and reserves attributable to members of Australian Unity Limited | | **478,675** | 448,993 |
| Non-controlling interests | 34 | **1,233** | 1,229 |
| **Total equity** | | **479,908** | 450,222 |

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

| | Notes | Attributable to members of Australian Unity Limited: Members' balances $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 | Non - controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2011** | | 215,513 | 2,475 | 170,085 | 388,073 | 3,713 | 391,786 |
| Profit for the year | | - | - | 22,231 | 22,231 | 101 | 22,332 |
| Other comprehensive income | 33(a) | - | (2,499) | - | (2,499) | - | (2,499) |
| **Total comprehensive income** | | - | (2,499) | 22,231 | 19,732 | 101 | 19,833 |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Increase in ownership of majority owned subsidiary | | - | - | - | - | (2,585) | (2,585) |
| Dividends provided for or paid | 33(c) | - | - | (389) | (389) | - | (389) |
| Additions from business combination | | 40,406 | 1,171 | - | 41,577 | - | 41,577 |
| Transfers within equity | 33 | - | 41 | (41) | - | - | - |
| | | 40,406 | 1,212 | (430) | 41,188 | (2,585) | 38,603 |
| **Balance at 30 June 2012** | | 255,919 | 1,188 | 191,886 | 448,993 | 1,229 | 450,222 |
| **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 | 33(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 | 33 | **-** | **217** | **(217)** | **-** | **-** | **-** |
| **Balance at 30 June 2013** | | **255,919** | **1,681** | **221,075** | **478,675** | **1,233** | **479,908** |

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

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **948,764** | 932,586 |
| Claims and benefits paid | | **(566,617)** | (507,387) |
| Payments to suppliers and employees | | **(297,390)** | (271,431) |
| Life investment contracts - Contributions received | | **131,833** | 180,201 |
| Life investment contracts - Withdrawals | | **(219,813)** | (224,716) |
| Life insurance - Premiums received | | **292** | 239 |
| Life insurance - Policy claims paid | | **(1,688)** | (1,984) |
| Net receipts from loans asset | | **900** | 9,435 |
| Net receipts from deposits liability | | **(36,684)** | 9,482 |
| Interest received | | **46,851** | 21,204 |
| Dividends and distributions received | | **8,426** | 12,809 |
| Interest and finance charges paid | | **(38,183)** | (32,691) |
| Income tax payments | | **(13,882)** | (4,286) |
| **Net cash inflow/(outflow) from operating activities** | 35 | **(37,191)** | 123,461 |
| **Cash flows from investing activities** | | | |
| Cash outflow from business combination | | **(2,592)** | (217) |
| Payments for investments | | **(898,688)** | (867,520) |
| Payments for property, plant and equipment | | **(25,816)** | (15,075) |
| Payments for investment properties | | **(31,773)** | (98,300) |
| Payments for intangible assets | | **(14,253)** | (11,875) |
| Payments for investments in associates and joint ventures | | **(9,468)** | (11,583) |
| Payments for additional shares in subsidiaries | | **-** | (3,581) |
| Loans to related entities | | **-** | (1,422) |
| Receipts from investments | | **859,963** | 801,980 |
| Proceeds from sale of investment properties | | **11,810** | 25,095 |
| Dividends received from associates and joint ventures | | **4,451** | 2,204 |
| Proceeds from sale of property, plant and equipment | | **27** | 462 |
| Proceeds from disposal of intangible assets | | **356** | - |
| **Net cash outflow from investing activities** | | **(105,983)** | (179,832) |
| **Cash flows from financing activities** | | | |
| Receipts from borrowings | | **(1,195)** | 11,198 |
| Receipts from refundable lease deposits and resident liabilities | | **36,524** | 73,055 |
| Dividend paid to non-controlling interest | | **-** | (389) |
| **Net cash inflow from financing activities** | | **35,329** | 83,864 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(107,845)** | 27,493 |
| Cash and cash equivalents at the beginning of the financial year | | **1,125,181** | 1,097,688 |
| **Cash and cash equivalents at end of the financial year** | 9 | **1,017,336** | 1,125,181 |

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

## Notes to the consolidated financial statements

## 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*.

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

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

*Critical accounting estimates*
The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### (b) Principles of consolidation

*(i) Subsidiaries*
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Unity Limited as at 30 June 2013 and the results of all subsidiaries for the year then ended.

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

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

The acquisition method of accounting is used to account for 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% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

## 1 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

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

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

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

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

*(iv) Life insurance benefit funds*
The Group's life insurance operations are conducted within separate benefit funds as required by the *Life Insurance Act 1995*. The assets, liabilities, revenue and expenses of the benefit funds are included within the consolidated financial statements. Revenue and expense transactions between the benefit funds and other entities within the Group are not eliminated. Balances outstanding between benefit funds and other entities within the Group are eliminated.

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

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

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

### (c) Benefit fund policy liabilities

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

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

## 1 Summary of significant accounting policies (continued)

### (c) Benefit fund policy liabilities (continued)

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 44.

*(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.

### (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.

## 1 Summary of significant accounting policies (continued)

### (e) Borrowings

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

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

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

### (f) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

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

Contingent consideration is classified 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.

### (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.

# 1 Summary of significant accounting policies (continued)

### (i) Derivatives and hedging activities

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 3. Movements in the hedging reserve in members' equity are shown in note 33. 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.

## 1 Summary of significant accounting policies (continued)

### (j) Employee benefits (continued)

*(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 reporting date, regardless of when the actual settlement is expected to occur.

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

## 1 Summary of significant accounting policies (continued)

### (k) Financial guarantee contracts (continued)

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

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

### (l) Foreign currency translation

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

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

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

### (m) Goods and Services Tax (GST)

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

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

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

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

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

### (n) Government grants

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

## 1 Summary of significant accounting policies (continued)

### (n) Government grants (continued)

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

## 1 Summary of significant accounting policies (continued)

### (q) Income tax (continued)

- 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 8.

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

## 1 Summary of significant accounting policies (continued)

### (r) Intangible assets

*(i) Goodwill*
Goodwill represents the excess of the consideration transferred of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains/(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

Impairment losses recognised for goodwill are not subsequently reversed.

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

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

*(iv) Computer software*
Costs incurred in acquiring software and 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.

## 1 Summary of significant accounting policies (continued)

### (t) Inventories

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

### (u) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value.

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

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

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

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

### (v) Investments and other financial assets

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

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

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

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

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

# 1 Summary of significant accounting policies (continued)

## (v) Investments and other financial assets (continued)

*(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.

## 1 Summary of significant accounting policies (continued)

### (v) Investments and other financial assets (continued)

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

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

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

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

*(iii) Available-for-sale financial assets*
In the assessment for impairment, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

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

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

### (w) Leases

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

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

## 1 Summary of significant accounting policies (continued)

### (w) Leases (continued)

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

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

### (x) Outstanding claims liability

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

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

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

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

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

### (y) Outwards reinsurance

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

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

### (z) Property, plant and equipment

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

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

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

## 1 Summary of significant accounting policies (continued)

### (z) Property, plant and equipment (continued)

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

The expected useful lives are as follows:

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

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

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

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

### (aa) Provisions

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make future sacrifice of economic benefits as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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

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

### (ab) Refundable lease deposits

Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

### (ac) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

# 1 Summary of significant accounting policies (continued)

### (ad) Reserve for credit losses

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

### (ae) Resident loans

Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the existing tenancy contracts. In certain cases, the amount repayable includes the resident's share of any increase in the value of the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

### (af) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Aged care income*
Income and government subsidies for the provision of aged care facilities and related services are recognised as the services are provided.

*(ii) Deferred management fee*
Deferred management fee represents income relating to managed retirement village assets is recognised on the turnover from one resident to another of independent living units in the retirement village and is linked to the resale value of a resident's unit and the resident's length of occupancy of the unit.

*(iii) Dividends*
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.

## 1 Summary of significant accounting policies (continued)

### (af) Revenue recognition (continued)

*(vii) Life insurance premium revenue and fees*
For life insurance contract liabilities and participating investment contract liabilities, premiums are recognised when the liabilities arising from them are created.

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

*(viii) Other revenue*
Commissions from reinsurance are recognised when the Group's right to receive the commission is established.

*(ix) Property, funds management and administration fee income*
Fee income is recognised based upon the contractual obligations of the Responsible Entity/Trustee to perform certain tasks.

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

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

*(xi) Resident levies*
Income from the provision of services to retirement village residents is recognised as the services are provided.

*(xii) Retirement village and aged care facility management fees*
Fees for the management of retirement villages and aged care facilities are recognised as management services are provided.

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

*(xiv) Share of profits of property development contracts - retirement village developments*
During the construction phase, the Group's share of development profits is recognised based upon cumulative development sales revenue as a proportion of total expected development sales revenue. On completion of a property development, all of the previously unrecognised share of development profits is recognised in the profit or loss.

### (ag) Risk equalisation trust fund

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

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

## 1 Summary of significant accounting policies (continued)

### (ah) Securitisation

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

### (ai) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided as part of the monthly management reporting document. The chief operating decision maker has been identified as the Group Executive Committee that has delegated responsibility from the board for the achievement of the business strategic and operational plans approved by the board.

### (aj) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost. They are presented as current liabilities unless payment is not due within 12 months after the end of each reporting period.

### (ak) Trade and other receivables

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

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

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

### (al) Unexpired risk liability

At the end of each reporting period the Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

## 1 Summary of significant accounting policies (continued)

### (al) Unexpired risk liability (continued)

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised immediately in the profit or loss. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

## 1 Summary of significant accounting policies (continued)

### (am) New accounting standards and interpretations

The Australian Accounting Standards Board (AASB) has issued numerous amendments to the Australian accounting standards that are not mandatory for 30 June 2013 reporting periods. The table below sets out the standards that are relevant to the Group.

| AASB | Title | Operative Date |
|---|---|---|
| AASB 1053 | Application of Tiers of Australian Accounting Standards | 1 July 2013 |
| AASB 2010-2 | Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements | |
| AASB 2011-2 | Amendments to Australian Accounting Standards arising from Trans Tasman Convergence Project – Reduced Disclosure Requirements | |
| AASB 2011-6 | Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method & Proportionate Consolidation Reduced Disclosure Requirements | |
| AASB 2011-11 | Amendments to AASB 119 arising from Reduced Disclosure Requirements | |
| AASB 2012-1 | Amendments to Australian Accounting Standards - Fair Value Measurement - Reduced Disclosure Requirements | |
| AASB 2012-7 | Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements | |
| AASB 2012-11 | Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments | |
| AASB 9 | Financial Instruments | 1 January 2015 |
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 | |
| AASB 2010-7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), and | |
| AASB 2012-6 | Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures | |
| AASB 10 | Consolidated Financial Statements | 1 January 2013 |
| AASB 11 | Joint Arrangements | |
| AASB 12 | Disclosures of Interest in Other Entities | |
| AASB 13 | Fair Value Measurement | |
| AASB 2011-8 | Amendments to Australian Accounting Standards Arising from AASB 13 | |
| Revised AASB 127 | Separate Financial Statements | |
| Revised AASB 128 | Investments in Associates and Joint Ventures | |
| AASB 2011-7 | Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards | |
| AASB 119 | Employee Benefits | 1 January 2013 |
| AASB 2011-10 | Amendments to Australian Accounting Standards Arising from AASB 119 | |
| AASB 2011-4 | Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements | 1 July 2013 |
| AASB 2012-2 | Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| AASB 2012-3 | Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |

## 1 Summary of significant accounting policies (continued)

**(am) New accounting standards and interpretations (continued)**

| AASB | Title | Operative Date |
|---|---|---|
| AASB 2012-5 | Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle | 1 January 2013 |
| AASB 2012-10 | Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments | 1 January 2013 |

The above standards are not yet effective for the annual reporting for the year ended 30 June 2013. Apart from AASB 1053 and its related amendments, 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. Apart from AASB 10, 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 1053 and related amendments*
AASB 1053 establishes a differential financial reporting framework consisting of two Tiers of reporting requirements:

- Tier 1: Australian Accounting Standards; and

- Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1, but with substantially reduced disclosures requirements. Tier 2 is applicable to for-profit, private sector entities which are not publicly accountable.

A number of the controlled entities in the Group have early adopted AASB 1053 and the relevant amendments arising from this standard for the financial year beginning on 1 July 2011. The adoption of these standards allowed the company to remove a number of disclosures. There was no other impact on the current or prior year financial statements.

*(ii) 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 2015 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 2016. Based on the existing recognition of financial assets and liabilities, the Group does not expect a material impact from the application of this standard.

## 1 Summary of significant accounting policies (continued)

### (am) New accounting standards and interpretations (continued)

*(iii) AASB 10 Consolidated Financial Statements and related amendments*
AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation - Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Control exists when the investor can use its power to affect the amount of its returns. The standard includes application guidance regarding situations in which control is difficult to assess, including situations involving potential voting rights, agency relationships, relationships with structured entities and control without a majority of voting rights. The Group will adopt this new standard in the annual reporting period ending 30 June 2014.

Based on its assessment of AASB 10, the Group does not expect a material impact from the application of this standard as it has concluded that the Group's relationship with managed investment schemes for which members of the Group act as the responsible entity is one of an agent rather than a principal and, consequently, the Group does not have the power to control these managed investment schemes.

*(iv) AASB 11 Joint Arrangements*
AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group's investments in the joint ventures will be classified as joint ventures under the new rules. As the Group already applies the equity method in accounting for these investments, AASB 11 will not have any impact on the amounts recognised in its financial statements. The Group will adopt this new standard in the annual reporting period ending 30 June 2014.

*(v) AASB 12 Disclosure of Interests in Other Entities*
AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments. The Group will adopt this new standard in the annual reporting period ending 30 June 2014.

*(vi) AASB 13 Fair Value Measurement*
AASB 13 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. It 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. Based on the existing recognition of financial assets and liabilities at fair value, the Group does not expect a material impact from the application of this standard on the amounts recognised in the financial statements. However, there will be additional disclosures on the methodology for determining the fair value which includes the assessment on annual valuation, valuation inputs, valuation process and fair value hierarchy. The Group will adopt this new standard in the annual reporting period ending 30 June 2014.

## 1 Summary of significant accounting policies (continued)

### (an) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 48 has been prepared on the same basis as the consolidated financial statements, except as set out below.

*Investments in subsidiaries, associates and joint venture entities*
Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Australian Unity Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

### (ao) Comparative information

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

The Group presents the deferred tax assets and deferred tax liabilities as a net amount of deferred tax assets or liabilities. The comparative amounts have been reclassified to be comparable with the figures stated in the current year. This change has no impact on the Group's profit or net assets.

## 2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

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

*(iv) Retirement village investment property*
The fair value of retirement village investment property is determined as the present value of future cash flows based upon statistical modelling of expected cash flows from incoming and outgoing residents and includes assumptions in respect of a number of factors, including average length of residency and expected changes in property prices. Further information is detailed in note 20.

*(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 43 and 44.

## 2 Critical accounting estimates and judgements (continued)

### (a) Critical accounting estimates and assumptions (continued)

*(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*.

## 3 Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board has established the Group Risk Committee, which is responsible for developing and monitoring risk management policies.

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

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In addition, the board has established the Group Investment Committee to oversee the particular activities and risks associated with the Group's investment responsibilities.

The Group Audit and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures. The Group Audit and Compliance Committee is assisted in its role by Group Audit, Group Compliance and Group Finance. Group Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Compliance oversees compliance with controls and procedures and Group Finance measures the quantitative aspects of the controls. The results of these reviews are reported to the Group Audit and Compliance Committee and the board.

### (a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

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

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

As at 30 June 2013, if the foreign exchange rates increase or decrease by 10%, 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** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Judgements of reasonably possible movements: | **$'000** | $'000 | **$'000** | $'000 |
| +10% (2012: +10%) | **(870)** | (125) | **(870)** | (125) |
| -10% (2012: -10%) | **1,055** | 141 | **1,055** | 141 |

## 3 Financial risk management (continued)

### (a) Market risk (continued)

*(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 and are included within market indices such as the Standard & Poor's ASX 200 Index.

The table below summarises the impact of increases/(decreases) of the index on the Group's post tax profit for the year and on equity. The analysis is based on the assumption that the equity index had increased/(decreased) by 10% at the end of the reporting period (2012: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

| | Impact on post-tax profit | | Impact on equity | |
|---|---|---|---|---|
| Index | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| ASX 200 + 10% (2012: +10%) | **4,126** | 6,506 | **4,126** | 6,506 |
| ASX 200 - 10% (2012: -10%) | **(3,757)** | (6,487) | **(3,757)** | (6,487) |

The price risk for the unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

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

*(iii) Cash flow and fair value interest rate risk*
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2013 and 2012, 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:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **286,950** | 311,672 |
| Financial assets at fair value through profit or loss | **104,191** | 87,050 |
| Held-to-maturity investments | **-** | 4,943 |
| Loans and advances | **444,525** | 430,465 |
| | **835,666** | 834,130 |

## 3 Financial risk management (continued)

### (a) Market risk (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Financial liabilities** | | |
| Deposits | **308,688** | 282,642 |
| Development finance loans (iii) | **22,473** | 17,003 |
| Cash advance facility | **-** | 8,000 |
| Loan payable to related entity | **2,800** | 2,800 |
| Australian Unity Notes (i) | **120,000** | 120,000 |
| Subordinated Capital Notes (ii) | **25,000** | 25,000 |
| Interest rate swap, at notional principal amounts | **(115,000)** | (115,000) |
| | **(363,961)** | (340,445) |
| **Net exposure** | **471,705** | 493,685 |

(i) The Australian Unity Notes issued in April 2011 carry a 3.55% fixed margin resulting in a total interest rate at 30 June 2013 of 6.59% (2012: 7.79%). As at 30 June 2013 and 2012, only the variable portion of $90 million Notes were hedged via interest rate swaps.

(ii) The subordinated capital notes carry a 4.90% fixed margin resulting in a total interest rate at 30 June 2013 of 7.99% (2012: 9.14%). Only the variable portion is hedged via an interest rate swap.

(iii) The interest rate of the development finance loans related to Carlton amounting to $6,380,000 as at 30 June 2013 is hedged via an interest rate swap effective on 25 September 2013.

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 2013 and 2012, 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** | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **Judgements of reasonably possible movements:** | | | | |
| + 0.25% (2012: + 0.50%) | **9** | 364 | **9** | 364 |
| - 0.25% (2012: - 0.50%) | **(9)** | (364) | **(9)** | (364) |

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

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

## 3 Financial risk management (continued)

### (b) Credit risk

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

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

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

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

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

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

## 3 Financial risk management (continued)

### (b) Credit risk (continued)

The following table represents the credit quality of financial assets:

| At 30 June 2013 | Neither past due nor impaired High grade $'000 | Neither past due nor impaired Other grade $'000 | Past due or impaired $'000 | Total $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | **1,017,336** | **-** | **-** | **1,017,336** |
| Trade receivables | **583** | **84,764** | **4,287** | **89,634** |
| Financial assets at fair value through profit or loss | **333,505** | **922,995** | **-** | **1,256,500** |
| Held-to-maturity investments | **69,736** | **-** | **-** | **69,736** |
| Loans and advances | **442,252** | **81,475** | **17,639** | **541,366** |
| Investments in associates and joint ventures | **-** | **42,783** | **-** | **42,783** |
| Other financial assets | **-** | **268** | **-** | **268** |
| | **1,863,412** | **1,132,285** | **21,926** | **3,017,623** |

| At 30 June 2012 | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 1,125,181 | - | - | 1,125,181 |
| Trade receivables | 89 | 99,106 | 5,940 | 105,135 |
| Financial assets at fair value through profit or loss | 289,913 | 882,541 | 7,072 | 1,179,526 |
| Held-to-maturity investments | 95,378 | - | - | 95,378 |
| Loans and advances | 479,831 | 44,297 | 15,987 | 540,115 |
| Investments in associates and joint ventures | - | 37,552 | - | 37,552 |
| Other financial assets | - | 1,138 | - | 1,138 |
| | 1,990,392 | 1,064,634 | 28,999 | 3,084,025 |

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

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 $11,841,000 (2012 : $14,113,000).

The Group provides financial guarantees to certain parties amounting to $12,604,222 (2012: $13,191,607). These financial guarantees are only provided in exceptional circumstances and are subject to specific board approval. The maximum exposure to credit risk 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.

## 3 Financial risk management (continued)

### (c) Liquidity risk

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

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

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

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

| | Less than 6 months $'000 | 6 - 12 months $'000 | Between 1 and 5 years $'000 | Over 5 years $'000 | No specific maturity $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 30 June 2013** | | | | | | |
| Trade and other payables | **79,782** | **-** | **-** | **-** | **-** | **79,782** |
| 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** |
| | **1,182,448** | **143,245** | **234,748** | **5,999** | **1,611,718** | **3,178,158** |
| At 30 June 2012 | | | | | | |
| Trade and other payables | 66,902 | - | - | - | - | 66,902 |
| Interest bearing liabilities | 578,878 | 71,054 | 226,318 | 27,596 | - | 903,846 |
| Current tax liabilities | 9,070 | - | - | - | - | 9,070 |
| Benefit fund policy liabilities | 124,824 | 100,629 | - | - | 1,628,262 | 1,853,715 |
| Other liabilities | 393,838 | - | 5,651 | - | - | 399,489 |
| | 1,173,512 | 171,683 | 231,969 | 27,596 | 1,628,262 | 3,233,022 |

## 3 Financial risk management (continued)

### (d) Fair value measurements

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

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

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

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

## 3 Financial risk management (continued)

### (d) Fair value measurements (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012:

| 30 June 2013 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Fixed interest securities | **334,094** | **-** | **-** | **334,094** |
| Equities | **743,028** | **-** | **-** | **743,028** |
| Mortgage trusts | **2,019** | **43,687** | **-** | **45,706** |
| Property syndicates and trusts | **65,159** | **16,312** | **-** | **81,471** |
| Debt securities | **52,201** | **-** | **-** | **52,201** |
| Other financial assets | **-** | **-** | **268** | **268** |
| **Total financial assets** | **1,196,501** | **59,999** | **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** |

| 30 June 2012 | | | | |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Fixed interest securities | 281,802 | 11,645 | 7,072 | 300,519 |
| Equities | 658,898 | - | - | 658,898 |
| Mortgage trusts | 39,176 | 37,032 | - | 76,208 |
| Property syndicates and trusts | 120,321 | 9,807 | - | 130,128 |
| Debt securities | 13,773 | - | - | 13,773 |
| Other financial assets | - | - | 199 | 199 |
| **Total financial assets** | 1,113,970 | 58,484 | 7,271 | 1,179,725 |
| **Financial liabilities** | | | | |
| Interest rate swaps | - | 3,550 | - | 3,550 |
| Life investment contract policy liabilities | - | 595,968 | - | 595,968 |
| **Total financial liabilities** | - | 599,518 | - | 599,518 |

# 3 Financial risk management (continued)

## (d) Fair value measurements (continued)

**Reconciliation of Level 3 fair value movements:**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance | **7,271** | 48,311 |
| Transfer from/(to) other categories | **-** | (24,645) |
| Revaluation through profit or loss | **1,160** | (4,658) |
| Sales | **(8,163)** | (11,286) |
| Principal repayments | **-** | (451) |
| Closing balance | **268** | 7,271 |

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

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

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

## (e) Capital risk management

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

Capital management plays a central role in managing risk to create member value whilst also ensuring that the interests of all stakeholders including investors, policyholders, lenders and regulators are met.

Capital is utilised to finance growth, non-current asset acquisitions and business plans and also provides support if adverse outcomes arise from health insurance, investment performance or other activities.

The appropriate level of capital is determined by the board based on both regulatory and economic considerations.

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the 2013 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.

# 3 Financial risk management (continued)

### (f) Insurance risk

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

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

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

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

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

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

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

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

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

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

## 3 Financial risk management (continued)

### (g) Operational risk management

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

While the Group Risk Committee has 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.

## 4 Segment information

### (a) Description of segments

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

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

| | |
|---|---|
| Corporate Functions | Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity. |
| Allied Health | Provision of dental and other healthcare services, including preventative health and chronic disease management services. |
| Health Insurance | Provision of private health insurance and management of the customer service centre. |
| Investments | Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Operation of Approved Deposit-takingInstitution. |
| 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.

# 4 Segment information (continued)

## (b) Segment information

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

| 2013 | Corporate Functions and eliminations $'000 | Allied Health $'000 | Health Insurance $'000 | Investments $'000 | Personal Financial Services $'000 | Retirement Living $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Total segment revenue | (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 benefit/(expense) | | | | | | | (5,953) |
| **Profit after income tax** | | | | | | | 29,410 |
| Share of profit/(loss) 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 |

## 4 Segment information (continued)

### (b) Segment information (continued)

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

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

## 4 Segment information (continued)

### (c) Other segment information

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

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

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

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

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

Segment revenue reconciles to total revenue as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Total segment revenue** | **938,548** | 832,468 |
| Dividends and distributions (note 6) | **8,426** | 12,809 |
| Investment income (note 6) | **24,642** | 4,905 |
| Accommodation bond interest reclassification | **(2,778)** | (3,456) |
| Building society investment gains in adjusted EBITDA | **(484)** | (484) |
| Fair value amortisation adjustment on non-interest bearing asset | **-** | (408) |
| Investment revaluation included in segment revenue | **(5,008)** | - |
| Management fee rebate reclassification | **(1,984)** | - |
| Share of net profit of associates and joint ventures | **(1,109)** | (1,133) |
| Rental income | **321** | 304 |
| Retirement village revaluation and other reclassification | **527** | 673 |
| Other | **3** | (9) |
| **Revenue attributable to members of Australian Unity Limited (note 46)** | **961,104** | 845,669 |
| | | |
| Revenue from benefit funds (note 46) | **180,683** | 188,606 |
| **Total revenue and other income** | **1,141,787** | 1,034,275 |

*(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.

## 4 Segment information (continued)

### (c) Other segment information (continued)

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Adjusted EBITDA** | **48,514** | 52,569 |
| **Depreciation and amortisation expense:** | | |
| Depreciation and amortisation expense (note 7) | **(15,391)** | (14,853) |
| Net loss on disposal of assets (note 7) | **(282)** | (1,378) |
| Fair value amortisation adjustment on non-interest bearing asset | **-** | (408) |
| Merger and acquisition expenses | **(1,392)** | (3,055) |
| Other | **(183)** | - |
| | **(17,248)** | (19,694) |
| **Interest expense** | | |
| Finance costs (note 7) | **(19,316)** | (21,563) |
| Accommodation bond interest classification | **(2,778)** | (3,456) |
| Joint venture interest revaluation included in adjusted EBITDA | **(959)** | - |
| Other | **(326)** | (299) |
| | **(23,379)** | (25,318) |
| **Investment income:** | | |
| Dividends and distributions (note 6) | **8,426** | 12,809 |
| Other net investment gains (note 6) | **24,642** | 4,905 |
| Impairment reversals/(losses) of investment in associates and joint ventures (note 7) | **205** | (2,615) |
| Building society investment losses in adjusted EBITDA | **(484)** | (484) |
| Investment revaluation included in adjusted EBITDA | **(5,008)** | - |
| Other | **(305)** | - |
| | **27,476** | 14,615 |
| Profit before income tax of benefit funds (note 46) | **27,558** | 17,317 |
| **Profit before income tax** | **62,921** | 39,489 |

*(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.

## 4 Segment information (continued)

### (c) Other segment information (continued)

Reportable segments' assets are reconciled to total assets as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Segment assets** | **1,623,068** | 1,657,496 |
| Resident liabilities and refundable lease deposits (note 28) | **384,429** | 349,019 |
| GST payable | **(1,287)** | (1,730) |
| Resident accounts recurrent charge | **1,149** | 958 |
| Withdrawal deposits reclassified | **-** | 1,378 |
| Receivables reclassified | **(69)** | (63) |
| Retirement Village Property Fund consolidation | **36,723** | 36,455 |
| Loan establishment costs reclassified | **-** | (5,078) |
| Other - reclassification between assets and liabilities | **(23,735)** | (19,918) |
| Other - netting of eligible deferred tax balances | **(31,837)** | (36,230) |
| Other | **(11)** | (79) |
| **Total assets attributable to members of Australian Unity Limited** | **1,988,430** | 1,982,208 |
| | | |
| Benefit fund assets (note 45) | **1,855,356** | 1,873,748 |
| Netting of eligible deferred tax balances | **(11,248)** | (3,162) |
| **Total assets** | **3,832,538** | 3,852,794 |

*(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.

## 4 Segment information (continued)

### (c) Other segment information (continued)

Reportable segments' liabilities are reconciled to total liabilities as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Segment liabilities** | **1,143,149** | 1,207,195 |
| Resident liabilities and refundable lease deposits (note 28) | **384,429** | 349,019 |
| GST payable | **(1,287)** | (1,730) |
| Resident accounts recurrent charge | **1,149** | 958 |
| Withdrawal deposits reclassified | **-** | 1,378 |
| Receivables reclassified | **(69)** | (63) |
| Retirement Village Property Fund consolidation | **36,723** | 36,455 |
| Loan establishment costs reclassified | **-** | (5,078) |
| Other - reclassification between assets and liabilities | **(23,735)** | (19,918) |
| Other - netting of eligible deferred tax balances | **(31,837)** | (36,230) |
| **Total liabilities attributable to members of Australian Unity Limited** | **1,508,522** | 1,531,986 |
| | | |
| Benefit fund liabilities (note 45) | **22,125** | 20,033 |
| Netting of eligible deferred tax balances | **(11,248)** | (3,162) |
| Benefit fund policy liabilities (note 44) | **1,833,231** | 1,853,715 |
| **Total liabilities** | **3,352,630** | 3,402,572 |

## 5 Business combination

**Current year**

**(a) Better Home Care Pty Ltd**

*Summary of acquisition*
In November 2012, Better Home Care Pty Ltd (formerly AU Care Provider Holdings Pty Ltd) acquired the business assets of Ultima Services (Aust) Pty Ltd (trading as Better at Home Seniors Care). The principal activity of Better at Home Seniors Care is the provision of personalised home care services (ie. personal care, household tasks, mobility and medical needs) to senior citizens located in Melbourne. The assets acquired comprised business records, contracts and arrangements, and office equipment. As part of the agreement, all the key personnel and the majority of carers were transferred to the acquirer. Through this acquisition the Group has expanded the range of aged care services.

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

| | $'000 |
|---|---|
| Purchase consideration | |
| Cash paid and payable | 1,753 |
| Contingent consideration | 750 |
| | 2,503 |

The $750,000 contingent consideration is payable in three deferred payments conditional upon the achievements of financial targets within the next three years as follows:

- Year 1: if the business achieves a minimum gross profit of $888,000 with a gross profit margin in the range of 32% to 37.5%, then 40% of the amount by which the Year 1 gross profit exceeds $540,000 will be paid, up to a maximum of $750,000;

- Year 2: if the business achieves minimum revenue of $2.2 million in Year 1 and $2.8 million in Year 2, each with a gross profit margin in the range of 32% to 37.5%, then 70% of the amount by which the Year 2 gross profit exceeds Year 1 gross profit will be paid, up to a maximum of $750,000 less the Year 1 deferred payment; and

- Year 3: if the business achieves the financial target for Year 2, minimum revenue of $2.8 million in Year 2 and $4.1 million in Year 3, each with a gross profit margin in the range of 32% to 37.5%, then $750,000 less the Year 1 and Year 2 deferred payments will be paid.

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

| | Fair value $'000 |
|---|---|
| Office equipment | 28 |
| Goodwill / management rights | 2,475 |
| Net assets required | 2,503 |

## 5 Business combination (continued)

### (a) Better Home Care Pty Ltd (continued)

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

*Acquisition-related costs*
Acquisition-related costs of $42,000 are included in expenses in the profit or loss.

*Revenue and profit contribution*
The acquired entity has contributed revenue of $1,123,000 and net loss of $127,000 to the Group for the period from 1 December 2012 to 30 June 2013.

If the acquisition had occurred on 1 July 2012, contributed revenue and net loss for the year ended 30 June 2013 would have been $2,116,000 and $39,000 respectively.

### (b) Big Sky Financial Planning Pty Ltd

*Summary of acquisition*
On 30 June 2013, Big Sky Financial Planning Pty Ltd acquired the business assets of HN Financial Planners Pty Ltd (HNFP). The principal activities of HNFP are providing financial planning services in Australia. The assets acquired include business records, business contracts, office equipment and intellectual property. As part of the agreement, the key personnel of HNFP were transferred to the acquirer. The acquisition is expected to increase the Group's market share in the financial planning industry.

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

| | **$'000** |
|---|---|
| Purchase consideration | |
| Cash payable | **2,957** |
| Contingent consideration | **1,209** |
| | **4,166** |

The $1,209,000 contingent consideration is payable by 4 September 2014 or later date as agreed by both parties. The amount of the contingent consideration is conditional upon the achievements of revenue targets during the period 1 August 2013 to 31 July 2014 as follows:

- If the recurring revenue is equal to or greater than $1,558,000 but does not exceed $1,722,000, then the contingent consideration will be $1,209,000;

- If the recurring revenue is below $1,558,000, then the contingent consideration will be $1,209,000 less 2.75 times the amount by which the recurring revenue attributed to personal planning business is less than $890,000 and less 2.00 times the amount by which the recurring revenue attributed to corporate superannuation business is less than $750,000; and

- If the recurring revenue is above $1,722,000, then the contingent consideration will be $1,209,000 plus 2.75 times the amount by which the recurring revenue attributed to personal planning business is more than $890,000 and plus 2.00 times the amount by which the recurring revenue attributed to corporate superannuation business is more than $750,000.

## 5 Business combination (continued)

### (b) Big Sky Financial Planning Pty Ltd (continued)

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

| | $'000 |
|---|---|
| Office equipment | 136 |
| Goodwill / management rights | 4,030 |
| | 4,166 |

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

*Acquisition-related costs*
Acquisition related costs of $315,000 are included in expenses in the profit or loss.

### (c) Cash flow information

| | $'000 |
|---|---|
| Outflow of cash to acquire business, net of cash acquired | |
| Cash consideration | 1,750 |
| Direct costs related to the acquisition | 42 |
| Cash outflow - investing activities | 1,792 |

## 6 Revenue and other income

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Commission income | **36,268** | 18,718 |
| Dental sales | **19,952** | 18,075 |
| Dividends and distributions | **8,426** | 12,809 |
| Fair value gains on investment property | **10,281** | 8,999 |
| Health insurance premium revenue (note 43) | **706,315** | 646,457 |
| Interest income of building society | **34,512** | 17,124 |
| Investment income | **24,642** | 4,905 |
| Management fees revenue | **61,552** | 61,156 |
| Rental income | **2,386** | 4,554 |
| Retirement village fees and subsidies | **53,931** | 45,565 |
| Revenue of benefit funds (note 44) | **180,683** | 188,606 |
| Other income | **2,839** | 7,307 |
| | **1,141,787** | 1,034,275 |

## 7 Expenses

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Expenses, excluding finance costs, included in the profit or loss classified by nature:** | | |
| Bank charges | **2,107** | 2,270 |
| Commission expense | **45,874** | 32,623 |
| Communication costs | **4,357** | 4,216 |
| Computer and equipment costs | **10,561** | 9,625 |
| Depreciation and amortisation expense | **15,391** | 14,853 |
| Employee benefits expense | **147,269** | 128,211 |
| Expenses in relation to benefit funds (note 44) | **153,125** | 171,289 |
| Financial and insurance costs | **3,853** | 3,253 |
| Fund manager and administration fees | **12,284** | 14,178 |
| Health insurance claims expense | **593,038** | 530,380 |
| Impairment losses/(reversal) of investment in associates and joint ventures (note 17) | **(205)** | 2,615 |
| Interest expense of building society | **18,990** | 11,566 |
| Legal and professional fees | **10,907** | 10,818 |
| Marketing expenses | **13,953** | 11,223 |
| Net loss on disposal of assets | **282** | 1,378 |
| Net risk equalisation trust fund recoveries | **(22,370)** | (19,120) |
| Occupancy costs | **10,150** | 9,411 |
| Other direct expenses | **26,124** | 21,964 |
| Other expenses | **18,207** | 13,797 |
| | **1,063,897** | 974,550 |

## 7 Expenses (continued)

**Profit before income tax includes the following specific expenses:**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| *Depreciation* | | |
| Buildings | **1,049** | 1,016 |
| Leasehold improvements | **2,192** | 2,656 |
| Plant and equipment | **2,096** | 2,107 |
| Total depreciation | **5,337** | 5,779 |
| *Amortisation* | | |
| Computer software | **8,798** | 7,458 |
| Management rights | **1,256** | 1,616 |
| Total amortisation | **10,054** | 9,074 |
| Total depreciation and amortisation | **15,391** | 14,853 |
| *Finance costs* | | |
| Interest and finance charges | **21,073** | 22,827 |
| Amount capitalised | **(1,757)** | (1,264) |
| Finance costs expensed | **19,316** | 21,563 |

## 8 Income tax expense

### (a) Income tax expense

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current tax | **(2,109)** | (892) |
| Current tax - benefit funds | **13,881** | 12,315 |
| Deferred tax | **11,551** | 4,486 |
| Deferred tax - benefit funds | **15,405** | 6,116 |
| Adjustments for current tax of prior periods | **(3,487)** | (3,754) |
| Adjustments for current tax of prior periods - benefit funds | **(1,728)** | (1,114) |
| | **33,513** | 17,157 |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Deferred income tax expense included in income tax expense comprises: | | |
| Decrease in deferred tax assets (note 21) | **16,205** | 6,712 |
| Increase in deferred tax liabilities (note 30) | **10,751** | 3,890 |
| | **26,956** | 10,602 |

## 8 Income tax expense (continued)

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit before income tax | **62,923** | 39,489 |
| Less: profit in benefit funds | **(27,558)** | (17,317) |
| | **35,365** | 22,172 |
| Tax at the Australian tax rate of 30% (2012: 30%) | **10,610** | 6,652 |
| Non-assessable income | **(5,802)** | (9,581) |
| Other assessable amounts | **2,999** | 1,264 |
| Non-deductible expenditure | **1,882** | 7,044 |
| Other deductible expenditure | **-** | 116 |
| Other deferred tax adjustments | **(2,123)** | (4,515) |
| Tax in benefit funds | **27,558** | 17,317 |
| Tax credits | **(1,188)** | (1,140) |
| Over provision in prior years | **(423)** | - |
| Income tax expense | **33,513** | 17,157 |

### (c) Tax consolidation legislation

Australian Unity Limited and the majority of its wholly-owned Australian controlled entities have formed a tax consolidated group with effect from 1 July 2002. Australian Unity Limited is the head entity of the tax consolidated group. The accounting policy in relation to this legislation is set out in note 1(q).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Australian Unity Limited. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

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

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

## 9 Current assets - Cash and cash equivalents

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash at bank and on hand | **1,049** | 1,873 |
| Bank balances | **37,010** | 38,065 |
| Deposits at call | **979,277** | 1,085,243 |
| | **1,017,336** | 1,125,181 |

### (a) Deposits at call

Deposits at call include $547,938,000 (2012: $685,274,000 ) held in the Australian Unity Wholesale Cash Fund.

### (b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 3.

### (c) Fair value

The carrying amount of cash and cash equivalents equals their fair value.

## 10 Current assets - Trade and other receivables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Net trade receivables** | | |
| Trade receivables | **37,535** | 49,686 |
| Provision for impairment of trade receivables (a) | **(247)** | (233) |
| | **37,288** | 49,453 |
| **Prepayments** | | |
| Deferred acquisition costs | **5,928** | 5,924 |
| Management fees prepayments | **6,305** | 3,287 |
| Prepaid reinsurance | **-** | 23 |
| Prepayments | **5,884** | 6,579 |
| | **18,117** | 15,813 |
| **Other receivables** | | |
| GST receivable | **607** | - |
| Interest receivable | **1,507** | 941 |
| Property deposits | **888** | 1,400 |
| Risk equalisation trust fund receivable | **11,300** | 10,900 |
| Seed capital | **5,997** | 6,497 |
| Sundry debtors | **13,928** | 20,131 |
| | **34,227** | 39,869 |
| | **89,632** | 105,135 |

## 10 Current assets - Trade and other receivables (continued)

### (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 2013, current trade receivables of the Group with a nominal value of $247,000 (2012: $233,000) were impaired. An impairment provision of $247,000 (2012: $233,000) has been recognised.

The ageing of these trade receivables is as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Up to 3 months | **180** | 176 |
| 3 - 6 months | **67** | 57 |
| | **247** | 233 |

Movements in the provision for impairment of trade receivables are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **233** | 221 |
| Provision recognised during the year | **14** | 12 |
| Balance at the end of the financial year | **247** | 233 |

The creation of the provision for impaired receivables has been included in financial and insurance costs in the profit or loss. The release of the provision for impaired receivables has been included in other income in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### (b) Past due but not impaired

At 30 June 2013, trade receivables of $4,287,000 (2012: $5,940,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing of these trade receivables is as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Up to 3 months | **2,526** | 1,988 |
| 3 - 6 months | **1,454** | 1,204 |
| 6 - 12 months | **307** | 2,748 |
| | **4,287** | 5,940 |

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

Information about the Group's exposure to interest rate risk in relation to trade and other receivables is provided in note 3.

## 10 Current assets - Trade and other receivables (continued)

### (c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Information about the Group's exposure to credit risk and the credit quality in relation to trade and other receivables is provided in note 3.

## 11 Current assets - Inventories

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Inventories at cost- Allied Health | **518** | 541 |
| Other inventories | **101** | 100 |
| | **619** | 641 |

## 12 Current assets - Loans and advances

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Loan to associate | **203** | - |
| Mortgage loans | **15,609** | 16,698 |
| Personal loans | **7,991** | 9,170 |
| Provision for impairment | **(177)** | (235) |
| | **23,626** | 25,633 |

### (a) Loan to associate

The loan to associate represents loan receivable from Health Providers Australia Pty Ltd (trading as "Rehability"). This loan is repayable on or before 30 June 2014 and accrues interest on a quarterly basis at the 90 day bank bill rate plus a margin of 1.5%. At 30 June 2013 the interest rate amounted to 4.29% per annum.

### (b) Mortgage loans

The mortgage loans are secured on real property. The loans earn interest at annual interest rates between 4.81% and 9.34% (2012: between 5.14% and 9.34%).

### (c) Personal loans

The personal loans earn interest at annual fixed rates between 5.80% and 13.78% (2012: between 5.50% and 16.90%).

## 12 Current assets - Loans and advances (continued)

### (d) Impaired loans and advances

As at 30 June 2013, current other loans and advances with a nominal value of $177,000 (2012: $235,000) were impaired. An impairment provision of $177,000 (2012: $235,000) has been recognised. This provision comprises a total of $177,000 for individual accounts (2012: $191,000) and $nil for collective accounts (2012: $44,000).

The contractual maturities of these loans and advances are as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Up to 3 months | **105** | 38 |
| 3 - 6 months | **5** | 84 |
| 6 - 12 months | **67** | 113 |
| | **177** | 235 |

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **235** | 31 |
| Additions from business combination | **-** | 195 |
| Provision recognised during the year | **281** | 9 |
| Provision reversed during the year | **(339)** | - |
| Balance at the end of the financial year | **177** | 235 |

The creation of the provision for impaired loans and advances is included in other expenses in the profit or loss. The release of the provision for impaired loans and advances is included in other revenue in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### (e) Past due but not impaired

At 30 June 2013, loans and advances of $928,000 (2012: $1,080,000) were past due but not impaired. These relate to a number of borrowers from whom there is no recent history of default.

The ageing of these loans and advances is as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Up to 3 months | | |
| Mortgage loans | **482** | 475 |
| Personal loans | **368** | 605 |
| 3 - 6 months | | |
| Mortgage loans | **20** | - |
| Personal loans | **15** | - |
| 6 - 12 months | | |
| Mortgage loans | **12** | - |
| Personal loans | **31** | - |
| | **928** | 1,080 |

## 12 Current assets - Loans and advances (continued)

### (f) 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 Current assets - Current tax assets

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Income tax receivable | **2,556** | - |

## 14 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:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Securities held by benefit funds | **1,092,225** | 1,022,963 |
| Securities held in funds managed by related entities | **164,275** | 156,563 |
| | **1,256,500** | 1,179,526 |

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment gains/(losses) in the profit or loss.

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Fixed interest securities | **286,042** | 214,893 |
| Equities | **707,937** | 635,837 |
| Mortgage trusts | **31,351** | 58,420 |
| Property syndicates and trusts | **50,925** | 100,040 |
| Debt securities | **15,970** | 13,773 |
| | **1,092,225** | 1,022,963 |

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

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Fixed interest securities | **48,052** | 48,952 |
| Equities | **35,091** | 23,061 |
| Mortgage trusts | **14,355** | 17,788 |
| Property syndicates and trusts | **30,546** | 30,087 |
| Debt securities | **36,231** | 36,675 |
| | **164,275** | 156,563 |

### (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:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current | **1,213,034** | 1,092,689 |
| Non-current | **43,466** | 86,837 |
| | **1,256,500** | 1,179,526 |

### (d) Risk exposure

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

Further information on the fair value measurement basis is provided in note 3.

## 15 Held-to-maturity investments

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Bank bills | **23,269** | 47,136 |
| Term deposits | **46,467** | 48,242 |
| | **69,736** | 95,378 |

**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.

## 16 Non-current assets - Loans and advances

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Loan to associate | - | 201 |
| Loans to related entities | **29,593** | 29,595 |
| Mortgage loans | **457,755** | 461,353 |
| Personal loans | **27,647** | 22,738 |
| Advances | **2,745** | 360 |
| | **517,740** | 514,247 |

Further information relating to loans to related parties and key management personnel is set out in notes 36 and 38, respectively.

**(a) Loan to associate**

The 2012 loan to associate comprised a receivable from Health Providers Australia Pty Ltd (trading as "Rehability"). Refer to note 12 for further information of this loan.

**(b) Loans to related entities**

The loans to related entities were made for the purpose of the development of a retirement village under a joint development arrangement. These loans are secured by a second mortgage on the properties of the related entities and by personal guarantees from the directors of the related entities. Included in these loans are fixed rate loans of $7,593,919 (2012: $7,596,221) which accrue interest on a monthly basis at an annual fixed rate of 15% (2012: 15%) and fixed rate loans of $21,999,042 (2012: $21,999,042) which accrue interest on a monthly basis at an annual fixed rate of 12% (2012: 12%).

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 2013, the related entities have a two years funding facility from BankWest expiring on 30 June 2015.

## 16 Non-current assets - Loans and advances (continued)

### (c) Mortgage loans

The mortgage loans are receivable by a controlled entity and by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 18 June 2043 and earn interest at annual interest rates between 4.81% and 9.34% (2012: between 5.14% and 9.34%).

### (d) Personal loans

The personal loans mature at various dates up to 31 May 2021 and earn interest at annual rates between 5.80% and 13.78% (2012: between 5.50% and 16.90%).

### (e) Past due but not impaired

At 30 June 2013, loans and advances of $16,534,000 were past due but not impaired (2012: $14,672,000). These relate to a number of borrowers from whom there is no recent history of default.

The ageing of these loans and advances is as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Up to 3 months | | |
| Mortgage loans | **14,181** | 13,131 |
| Personal loans | **1,267** | 1,541 |
| 3 - 6 months | | |
| Mortgage loans | **578** | - |
| Personal loans | **51** | - |
| 6 - 12 months | | |
| Mortgage loans | **351** | - |
| Personal loans | **106** | - |
| | **16,534** | 14,672 |

## 16 Non-current assets - Loans and advances (continued)

### (f) Fair values

The fair values and carrying values of current and non-current loans and advances are as follows:

| | **2013 Carrying amount $'000** | **2013 Fair value $'000** | 2012 Carrying amount $'000 | 2012 Fair value $'000 |
|---|---|---|---|---|
| Loan to associate | **203** | **203** | 201 | 201 |
| Loans to related entities | **29,593** | **29,593** | 29,595 | 29,595 |
| Mortgage loans | **473,364** | **473,830** | 478,051 | 478,433 |
| Personal loans | **35,461** | **35,461** | 31,673 | 31,673 |
| Advances | **2,745** | **2,425** | 360 | 360 |
| | **541,366** | **541,512** | 539,880 | 540,262 |

### (g) Risk exposure

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

## 17 Non-current assets - Investments in associates and joint ventures

### (a) Carrying amounts

| **Name of entity** | **Principal activity** | **Ownership interest 2013 %** | Ownership interest 2012 % | **Value of investment 2013 $'000** | Value of investment 2012 $'000 |
|---|---|---|---|---|---|
| ***Listed*** | | | | | |
| Calliden Group Limited (i) | General insurance | **13** | 13 | **6,183** | 5,658 |
| ***Unlisted*** | | | | | |
| Acorn Capital Limited | Investment management | **48** | 50 | **3,444** | 2,503 |
| Altius Asset Management Pty Ltd | Investment management | **47** | 47 | **1,728** | 1,491 |
| Certainty Financial (ii) | Financial planning and finance broking | **70** | 70 | **21,273** | 19,422 |
| Fedinvest Pty Ltd | Investment platform | **50** | - | **239** | - |
| Health Providers Australia Pty Ltd | Rehabilitative health services | **50** | 50 | **469** | 441 |
| Lifestyle Manor Anglesea Pty Ltd (iii) | Property development | **51** | 51 | **500** | 500 |

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

### (a) Carrying amounts (continued)

| Name of entity | Principal activity | Ownership interest 2013 % | Ownership interest 2012 % | Value of investment 2013 $'000 | Value of investment 2012 $'000 |
|---|---|---|---|---|---|
| Next Rural Financial Management Pty Ltd | Financial planning and finance broking | **50** | 50 | **371** | 360 |
| Platypus Asset Management Pty Limited | Investment management | **50** | 50 | **1,618** | 1,738 |
| Seres Asset Management Limited | Investment management | **46** | 50 | **5,542** | 3,509 |
| Vianova Unit Trust | Investment management | **50** | 50 | **938** | 1,603 |
| Wingate Asset Management Pty Limited | Investment management | **44** | 45 | **478** | 327 |
| | | | | **42,783** | 37,552 |

Each of the above associates and joint ventures is incorporated in Australia, except for Seres Asset Management Limited which is incorporated in Hong Kong.

(i) The Group appoints one member to the Calliden board of directors and the Group entities distribute Calliden insurance products and provide Calliden with some office accommodation on commercial terms. Consequently, the Group recognises the investment in Calliden as an investment in an associate. A provision of 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% of the issued and fully paid shares of Certainty Financial Pty Limited and a 70% interest in each of the Certainty Financial Victorian Joint Venture and Certainty Financial NSW Joint Venture (jointly Certainty). However, the Group nominates only 50% 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 are exercisable any time after 1 January 2015 and have no expiry date.

(iii) The Group has beneficial ownership of 51% of the issued share capital of Lifestyle Manor Anglesea Pty Ltd (LMA), but nominates only 50% 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.

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

### (b) Movements in carrying amounts

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Carrying amount at the beginning of the financial year | **37,552** | 19,023 |
| Investments acquired during the year | **5,129** | 22,021 |
| Impairment reversal/(provision) | **205** | (2,615) |
| Share of net profits after income tax | **4,349** | 1,327 |
| Dividends received | **(4,452)** | (2,204) |
| Carrying amount at the end of the financial year | **42,783** | 37,552 |

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Calliden Group Limited | **9,043** | 3,617 |

### (d) Summarised financial information of associates and joint ventures

The Group's share of the results of its principal associates and joint ventures and the aggregated assets (including goodwill) and liabilities are as follows:

| | Group's share of: | | | |
|---|---|---|---|---|
| | Assets $'000 | Liabilities $'000 | Revenue $'000 | Profit after tax $'000 |
| **2013** | | | | |
| Total | **79,419** | **58,137** | **71,523** | **4,349** |
| **2012** | | | | |
| Total | 84,012 | 64,058 | 68,254 | 1,327 |

## 18 Non-current assets - Other financial assets

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Unlisted investments | **268** | 1,138 |

Unlisted investments comprise investments in unlisted shares.

## 19 Non-current assets - Property, plant and equipment

| | Land $'000 | Buildings $'000 | Plant and equipment $'000 | Leasehold improvements $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2011** | | | | | |
| Cost | - | - | 24,224 | 19,409 | 43,633 |
| Valuation | 18,989 | 41,651 | - | - | 60,640 |
| Accumulated depreciation | - | (7,944) | (15,356) | (14,386) | (37,686) |
| Net book amount | 18,989 | 33,707 | 8,868 | 5,023 | 66,587 |
| **Year ended 30 June 2012** | | | | | |
| Opening net book amount | 18,989 | 33,707 | 8,868 | 5,023 | 66,587 |
| Acquisition of business | - | - | 239 | 522 | 761 |
| Additions | 8,385 | 1,978 | 4,347 | 365 | 15,075 |
| Disposals | - | (419) | (77) | (26) | (522) |
| Transfer to investment properties | (2,450) | (370) | (6) | - | (2,826) |
| Other transfers | 588 | (588) | - | - | - |
| Depreciation charge | - | (1,016) | (2,107) | (2,656) | (5,779) |
| Closing net book amount | 25,512 | 33,292 | 11,264 | 3,228 | 73,296 |
| **At 30 June 2012** | | | | | |
| Cost | - | - | 29,028 | 20,765 | 49,793 |
| Valuation | 25,512 | 42,128 | - | - | 67,640 |
| Accumulated depreciation | - | (8,836) | (17,764) | (17,537) | (44,137) |
| Net book amount | 25,512 | 33,292 | 11,264 | 3,228 | 73,296 |
| **Year ended 30 June 2013** | | | | | |
| Opening net book amount | **25,512** | **33,292** | **11,264** | **3,228** | **73,296** |
| Acquisition of business | **-** | **-** | **16** | **10** | **26** |
| Additions | **-** | **21,685** | **2,959** | **1,172** | **25,816** |
| 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 | **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** |

## 19 Non-current assets - Property, plant and equipment (continued)

### (a) Valuations of land and buildings

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

In the 2013 and 2012 financial years, the Group engaged CB Richard Ellis (V) Pty Ltd and Savills Valuations Pty Ltd respectively, accredited independent valuers, to determine the fair value of its land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The independent valuations support the Group's carrying value.

### (b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Land** | | |
| Cost | **24,231** | 24,231 |
| Net book amount | **24,231** | 24,231 |
| **Buildings** | | |
| Cost | **61,682** | 41,186 |
| Accumulated depreciation | **(10,441)** | (9,023) |
| Net book amount | **51,241** | 32,163 |

## 20 Non-current assets - Investment properties

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **At fair value** | | |
| Balance at the beginning of the financial year | **586,565** | 502,853 |
| Acquisitions | **31,773** | 98,300 |
| Disposals | **(11,810)** | (26,413) |
| Net fair value movements | **10,281** | 8,999 |
| Transfers from owner occupied property | **-** | 2,826 |
| Transfer from intangible assets | **300** | - |
| Balance at the end of the financial year | **617,109** | 586,565 |

## 20 Non-current assets - Investment properties (continued)

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

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Revenue | **31,772** | 25,142 |
| Expenses | **(21,415)** | (15,584) |
| Changes in fair value recognised in profit or loss | **10,281** | 8,999 |
| | **20,638** | 18,557 |

### (b) Valuation basis

Investment properties comprise the Group's interests in retirement village independent living units, the aged care facility at Victoria Grange in Victoria, development sites and other non-owner occupied property. A related party, not part of the wholly-owned Group, has an interest in the Victoria Grange aged care facility. The Group's other aged care facilities are managed by operators within the Group and so are included in property, plant and equipment as owner occupied property, refer to note 19.

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

Fair value for completed retirement villages is determined using a financial model which calculates the net present value of future cash flows rather than a valuation by an external accredited independent valuer. The financial model incorporates information from a variety of sources including:

(i) current prices in an active market for properties of a similar nature; and
(ii) resident turnover rates based on business experience including the expected average length of residence based on mortality assumptions and voluntary turnover, average incoming ages and distributions.

Fair value of the Victoria Grange aged care facility and other non-owner occupied property is based on periodic, but at least triennial, valuations by external accredited independent valuers.

Development sites are initially recorded at cost. Subsequently the carrying value is measured against the present value of future cash flows, being the final estimated development value less the remaining cost of development, using a value in use calculation in order to determine fair value. This comparison is reassessed at specific milestones during the development process. In the event that carrying value is greater than the present value of future cash flows, an impairment charge is made.

### (c) Summarised information of investment properties

Investments in properties are held as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Retirement village independent living units | **392,189** | 374,158 |
| Retirement village property funds | **52,373** | 51,013 |
| Residential aged care facilities | **23,041** | 22,912 |
| Development sites | **144,895** | 133,882 |
| Non-owner occupied property | **4,611** | 4,600 |
| | **617,109** | 586,565 |

## 21 Non-current assets - Deferred tax assets

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Accrued expenses | **397** | 335 |
| Capitalised expenditure | **192** | 112 |
| Policy bonus credits | **3,088** | - |
| Provisions | **288** | 111 |
| Tax losses | **-** | 404 |
| Trust distribution | **(1,765)** | (1,374) |
| Unrealised gains/losses on investments | **(5,511)** | 12,575 |
| Other assessable items | **13,444** | 10,901 |
| Other deductible items | **(1,461)** | (1,887) |
| Total deferred tax assets | **8,672** | 21,177 |
| **Movements:** | | |
| Balance at the beginning of the financial year | **21,177** | 26,429 |
| Charged to the profit or loss (note 8) | **(16,205)** | (6,712) |
| Other transfers | **3,700** | 1,460 |
| Balance at the end of the financial year | **8,672** | 21,177 |

## 22 Non-current assets - Intangible assets

| | Goodwill / management rights $'000 | Computer software $'000 | Aged care bed licences $'000 | Total $'000 |
|---|---|---|---|---|
| **At 1 July 2011** | | | | |
| Cost | 25,326 | 69,737 | 10,740 | 105,803 |
| Accumulation amortisation | (2,294) | (37,877) | - | (40,171) |
| Net book amount | 23,032 | 31,860 | 10,740 | 65,632 |
| **Year ended 30 June 2012** | | | | |
| Opening net book amount | 23,032 | 31,860 | 10,740 | 65,632 |
| Acquisition of business | 2,645 | 299 | - | 2,944 |
| Additions | 1,128 | 10,447 | - | 11,575 |
| Disposals | 16,105 | - | - | 16,105 |
| Amortisation charge | (1,616) | (7,458) | - | (9,074) |
| Closing net book amount | 41,294 | 35,148 | 10,740 | 87,182 |
| **At 30 June 2012** | | | | |
| Cost | 50,347 | 81,006 | 10,740 | 142,093 |
| Accumulation amortisation | (9,053) | (45,858) | - | (54,911) |
| Net book amount | 41,294 | 35,148 | 10,740 | 87,182 |
| **Year ended 30 June 2013** | | | | |
| Opening net book amount | **41,294** | **35,148** | **10,740** | **87,182** |
| Acquisition of business | **6,505** | **2** | **-** | **6,507** |
| Additions | **107** | **9,363** | **-** | **9,470** |
| Disposals | **-** | **(356)** | **-** | **(356)** |
| Transfer to investment property | **(300)** | **-** | **-** | **(300)** |
| Amortisation charge | **(1,256)** | **(8,798)** | **-** | **(10,054)** |
| Closing net book amount | **46,350** | **35,359** | **10,740** | **92,449** |
| **At 30 June 2013** | | | | |
| Cost | **56,125** | **86,725** | **10,740** | **153,590** |
| Accumulated amortisation | **(9,775)** | **(51,366)** | **-** | **(61,141)** |
| Net book amount | **46,350** | **35,359** | **10,740** | **92,449** |

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 2013, the Group held 231 purchased licences and 446 granted licences (2012: 231 purchased licences and 446 granted licences).

## 22 Non-current assets - Intangible assets (continued)

### (a) Impairment tests for goodwill

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:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Healthcare | **1,312** | 1,354 |
| Retirement living | **10,206** | 7,731 |
| Retirement village property funds | **-** | 300 |
| Investments | **32,276** | 29,189 |
| Personal financial services | **2,556** | 2,720 |
| | **46,350** | 41,294 |

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 9.00% applied to cash flow projections represents the Group's weighted average cost of capital (2012: 6.30%). A 2.5% growth rate (2012: 3%) 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 13.80% per annum would not cause the recoverable amount of goodwill to fall below its carrying amount.

## 23 Non-current assets - Other non-current assets

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Borrowing arrangement costs | **20** | 143 |

## 24 Current liabilities - Trade and other payables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade payables | **20,961** | 19,683 |
| Risk equalisation trust fund payable | **5,686** | 5,076 |
| Accrued expenses | **48,838** | 41,319 |
| GST payable | **-** | 234 |
| Other payables | **4,297** | 590 |
| | **79,782** | 66,902 |

### (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.

## 25 Current liabilities - Interest bearing liabilities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Unsecured** | | |
| Call deposits | **303,688** | 281,543 |
| Term deposits | **205,778** | 270,994 |
| Mortgage offset savings accounts | **37,220** | 35,152 |
| Retirement Village Investment Notes | **7,727** | 16,071 |
| Cash advance facility | **-** | 8,000 |
| Development finance loans | **3,981** | 12,642 |
| Loan payable to related entity | **2,800** | 2,800 |
| Subordinated capital notes | **25,000** | - |
| Total unsecured current borrowings | **586,194** | 627,202 |

### (a) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2013, this rate amounted to between nil% and 4.50% (2012: between nil% and 4.50%).

### (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 2013 ranging between 2.75% and 8.09% (2012: between 3.00% and 8.20%).

## 25 Current liabilities - Interest bearing liabilities (continued)

### (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 29 for further information.

The following table summarises the details of RVIN:

| Name | Prospectus | Maturity date | Interest rate | 2013 $'000 | 2012 $'000 |
|---|---|---|---|---|---|
| Series 1 RVIN | | | | | |
| | 1 | 30 November 2012 | 9.00% | - | 8,990 |
| | 3 | 30 November 2013 | 8.25% | **1,286** | - |
| Series 3 RVIN | | | | | |
| | 1 | 31 March 2014 | 8.25% | **120** | - |
| | 2 | 30 June 2014 | 8.25% | **498** | - |
| | 3 | 31 December 2012 | 8.00% | - | 7,081 |
| | 5 | 30 June 2014 | 8.50% | **5,823** | - |
| Total | | | | **7,727** | 16,071 |

### (e) Cash advance facility

The 2012 balance of cash advance facility represented a bank loan bearing interest rate at 5.28% per annum as at 30 June 2012. This facility was repaid in January 2013.

### (f) Development finance loans

The 2013 balance of the development finance loan represented the bank loan facility for the development of a retirement village site in Vermont South, Victoria (Victoria Grange). As at 30 June 2013, the interest rate of the loan was 5.03% per annum (2012: 5.79%). The loan will mature in June 2014.

The 2012 balance of development finance loans comprised bank loan facilities for the development of retirement village sites in Mornington, Victoria (Peninsula Grange) and Port Macquarie, New South Wales (Sienna Grange). As at 30 June 2012, the loan facility for Peninsula Grange amounted to $12,118,000 bearing interest at 5.73% per annum. The loan which initially matured in June 2013 has been extended to June 2016 (refer to note 29). As at 30 June 2012, the loan facility for Sienna Grange amounted to $524,000 bearing interest at 6.19% per annum. This loan was expired and fully repaid in May 2013.

### (g) Loan payable to related entity

The loan payable to related entity matures on 31 August 2013 and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 1%. At 30 June 2013 this rate amounted to 4.05% (2012: 5.34%).

### (h) Subordinated capital notes

The balance represented subordinated capital notes issued on 11 July 2008 with initial maturity of 10 years. The Group opted to repay the notes in July 2013. Refer to note 29 for further details.

### (i) Risk exposures

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

## 25 Current liabilities - Interest bearing liabilities (continued)

### (j) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 29.

## 26 Current liabilities - Current tax liabilities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Income tax payable | - | 9,070 |

## 27 Current liabilities - Provisions

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Employee benefits | **14,019** | 11,820 |
| Outstanding claims | **51,012** | 47,608 |
| Other provisions | **3,512** | 3,565 |
| | **68,543** | 62,993 |

### (a) Outstanding claims provision

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

### (b) Other provisions

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

### (c) Movements in provisions

Movements in the outstanding claims provision during the financial year is provided in note 43(c).

Movements in each class of provision during the financial year, other than employee benefits and outstanding claims provisions, are set out below:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **3,565** | 3,070 |
| Additions from business combination | **-** | 1,641 |
| Amounts charged to/(reversed in) profit or loss | **2,398** | (73) |
| Payments during the year | **(2,451)** | (1,073) |
| Balance at the end of the financial year | **3,512** | 3,565 |

## 28 Current liabilities - Other current liabilities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Unearned income | **113,472** | 142,381 |
| Refundable lease deposits | **72,525** | 68,771 |
| Resident loan liabilities | **348,694** | 315,924 |
| Interest rate swaps | **349** | - |
| Others | **11,024** | 9,143 |
| | **546,064** | 536,219 |

### (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 20. 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 balance represented the current portion of interest rate swaps liability. Refer to note 32 for further details.

### (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 is set out in note 3.

## 29 Non-current liabilities - Interest bearing liabilities

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Secured** | | |
| Lease liabilities | **13** | 18 |
| Total secured non-current borrowings | **13** | 18 |

## 29 Non-current liabilities - Interest bearing liabilities (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Unsecured** | | |
| Australian Unity Notes | **120,000** | 120,000 |
| Australian Unity Notes establishment costs | **(3,738)** | (5,078) |
| Development finance loans | **18,492** | 4,361 |
| Retirement Village Investment Notes | **54,053** | 45,709 |
| Subordinated capital notes | **-** | 25,000 |
| Term deposits | **15,552** | 11,233 |
| Total unsecured non-current borrowings | **204,359** | 201,225 |
| | | |
| Total non-current borrowings | **204,372** | 201,243 |

### (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% 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% as at 30 June and 31 December each year. The Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The Gearing Ratio is calculated based on the financial position of the Group, excluding Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited). As at 30 June 2013, the Gearing Ratio was 35.9% (2012: 37.9%).

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% per annum maturing on 14 April 2016. On 7 December 2011, the Company swapped the variable interest rate of $30 million of the notes at 3.8092% per annum maturing on 14 January 2014.

### (b) Development finance loans

The 2013 balance of development finance loans comprised bank loan facilities for the development of a retirement village site in Mornington, Victoria (Peninsula Grange) and a retirement and aged care facilities site in Carlton (Carlton RACF).

The loan facility for Peninsula Grange is up to $19 million which will expire in June 2016. As at 30 June 2013, this loan amounted to $12,113,000 bearing interest at 5.03% per annum (2012: 5.73%). The loan was classified as current liability in prior year.

The loan facility for Carlton RACF is up to $49 million which will expire in July 2017. As at 30 June 2013, this loan amounted to $6,380,000 bearing interest at 4.77% per annum. The Group has entered into an arrangement to swap the interest rate at 2.97% per annum effective on 25 September 2013 up to 25 November 2014.

The 2012 balance of 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.

## 29 Non-current liabilities - Interest bearing liabilities (continued)

### (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 I 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, whilst AURVT#2 comprises three other villages - Constitution Hill, Karagi Court and Kiah Lodge, all located in New South Wales. All of these villages are managed by a related entity Australian Unity Retirement Living Management Pty Ltd. The Group does not hold any security over these retirement village assets nor any other assets of AURVT#1, AURVT#2 or AURLSL.

The following table summarises the details of RVIN.

| Name | Prospects | Maturity date | Interest rate | 2013 $'000 | 2012 $'000 |
|---|---|---|---|---|---|
| Series 1 RVIN | | | | | |
| | 3 | 30 November 2013 | 8.25% | - | 1,286 |
| | 3 | 30 November 2015 | 8.75% | **3,808** | 3,808 |
| | 4 | 30 November 2014 | 8.25% | **8,581** | 8,581 |
| | 4 | 30 November 2016 | 8.50% | **1,318** | 1,318 |
| | 5 | 30 November 2015 | 7.00% | **2,962** | - |
| | 5 | 30 November 2017 | 7.50% | **620** | - |
| | 5 | 30 November 2019 | 7.50% | **5,408** | - |
| Series 2 RVIN | | | | | |
| | 3 | 31 December 2014 | 8.25% | **4,118** | 4,118 |
| | 3 | 31 December 2016 | 8.50% | **770** | 770 |
| | 4 | 31 March 2015 | 8.00% | **2,909** | 2,909 |
| Series 3 RVIN | | | | | |
| | 1 | 31 March 2014 | 8.25% | - | 120 |
| | 1 | 31 March 2016 | 8.50% | **145** | 145 |
| | 2 | 30 June 2014 | 8.25% | - | 498 |
| | 2 | 30 June 2016 | 8.50% | **890** | 890 |
| | 3 | 31 December 2014 | 8.25% | **130** | 130 |
| | 3 | 31 December 2016 | 8.50% | **233** | 233 |
| | 5 | 30 June 2014 | 8.50% | - | 5,823 |
| | 5 | 30 June 2016 | 8.75% | **3,521** | 3,521 |
| | 6 | 31 March 2015 | 8.00% | **4,514** | 4,514 |
| | 7 | 30 June 2015 | 7.50% | **7,045** | 7,045 |
| | 8 | 31 December 2015 | 7.00% | **6,751** | - |
| | 8 | 31 December 2017 | 7.50% | **315** | - |
| | 8 | 31 December 2019 | 7.50% | **15** | - |
| Total | | | | **54,053** | 45,709 |

## 29 Non-current liabilities - Interest bearing liabilities (continued)

### (d) Subordinated capital notes

On 11 July 2008, the Group issued $25,000,000 of subordinated capital notes. The subordinated capital notes have a maturity of 10 years with a non-call 5 year period and incur a floating interest rate equal to the 90-day BBSW rate plus a margin of 4.90% per annum. After the non-call period, this rate increases to the 90-day BBSW rate plus a margin of 6.90% per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2013, the interest rate applicable to the quarter commencing 11 April 2013 was 7.99% (2012: 8.39%). The variable component of the interest rate on these subordinated capital notes was hedged using an interest rate swap at 5.0675% per annum commencing on 19 July 2010 up to 11 July 2013.

During the year the Group opted to call the notes of the end of the non-call period and repaid them on 11 July 2013. Refer to note 41 for further details.

### (e) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2013 ranging between 2.75% and 8.09% (2012: between 3.00% and 8.20%).

### (f) Fair value

The carrying amounts and fair values of borrowings (current and non-current) at the end of the reporting period are:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Carrying amount $'000** | **Fair value $'000** | Carrying amount $'000 | Fair value $'000 |
| Australian Unity Notes | **120,000** | **124,200** | 120,000 | 123,000 |
| Australian Unity Notes establishment costs | **(3,738)** | **(3,738)** | (5,078) | (5,078) |
| Cash advance facility | **-** | **-** | 8,000 | 8,000 |
| Call deposits | **303,688** | **303,688** | 281,543 | 281,543 |
| Development finance loans | **22,473** | **21,320** | 17,003 | 16,517 |
| Lease liabilities | **13** | **13** | 18 | 18 |
| Loan payable to related entity | **2,800** | **2,800** | 2,800 | 2,800 |
| Mortgage offset savings accounts | **37,220** | **37,220** | 35,152 | 35,152 |
| Retirement Village Investment Notes | **61,780** | **62,532** | 61,780 | 60,882 |
| Subordinated capital notes | **25,000** | **25,000** | 25,000 | 27,349 |
| Term deposits | **221,330** | **220,946** | 282,227 | 280,307 |
| | **790,566** | **793,981** | 828,445 | 830,490 |

### (g) Risk exposures

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

## 30 Non-current liabilities - Deferred tax liabilities

**The balance comprises temporary differences attributable to:**

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Accrued expenses | **(5,025)** | (3,025) |
| Allocable cost adjustment on consolidation | **1,013** | 1,013 |
| Capitalised expenditure | **(9,328)** | (9,172) |
| Deferred acquisition costs | **-** | 29 |
| Fixed assets and investment properties | **40,221** | 34,944 |
| Investment in associates and joint ventures | **(1,648)** | (2,676) |
| Other assessable items | **10,966** | 7,763 |
| Other deductible items | **1,639** | 990 |
| Policy bonus credits | **(11,104)** | (8,618) |
| Provisions | **(7,344)** | (5,047) |
| Risk equalisation trust fund | **3,796** | 4,239 |
| Tax losses | **(3,812)** | (7,425) |
| Trust distribution | **1,333** | 1,147 |
| Unallocated income | **-** | (354) |
| Unrealised gains on investments | **7,508** | 3,523 |
| Total deferred tax liabilities | **28,215** | 17,331 |

**Movements:**

| | | |
|---|---|---|
| Balance at the beginning of the financial year | **17,331** | 15,052 |
| Charged to the profit or loss (note 8) | **10,751** | 3,890 |
| Charged/(credited) to other comprehensive income | **118** | (1,070) |
| Other transfers | **15** | (541) |
| Balance at the end of the financial year | **28,215** | 17,331 |

## 31 Non-current liabilities - Provisions

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Employee benefits | **2,583** | 2,190 |
| Outstanding claims | **838** | 801 |
| | **3,421** | 2,991 |

## 32 Non-current liabilities - Other non-current liabilities

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Unearned income | **-** | 15,705 |
| Interest rate swaps | **2,808** | 3,550 |
| Other liabilities | **-** | 5,651 |
| | **2,808** | 24,906 |

### (a) Unearned income

Unearned income represents health insurance premium revenue not yet recognised in the profit or loss.

### (b) Interest rate swaps

The Company entered into arrangements to hedge swap the variable interest component of the majority of the $120 million Australian Unity Notes (refer to note 29). On 9 August 2011, the Company swapped the variable interest component of $60 million of the notes at 4.65% per annum maturing on 14 April 2016. On 7 December 2011, the Company swapped the variable interest rate of $30 million of the notes at 3.8092% per annum maturing on 14 January 2014.

A subsidiary company entered into an interest rate swap transaction to hedge exposures to fluctuations in interest rates in relation to the subordinated capital notes (refer to note 29). The subsidiary company swapped the variable interest component of the $25 million subordinated capital notes at 5.0675% per annum maturing on 11 July 2013.

## 33 Reserves and retained earnings

### (a) Reserves

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Asset revaluation reserve | **2,462** | 2,462 |
| Reserve for credit losses | **1,429** | 1,212 |
| Cash flow hedges reserve | **(2,210)** | (2,486) |
| | **1,681** | 1,188 |

**Movements:**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| *Asset revaluation reserve* | | |
| Balance at the beginning of the financial year | **2,462** | 2,462 |
| Balance at the end of the financial year | **2,462** | 2,462 |
| *Reserve for credit losses* | | |
| Balance at the beginning of the financial year | **1,212** | 13 |
| Additions from business combination | **-** | 1,171 |
| Transfer from retained earnings | **217** | 41 |
| Transfer from/(to) net profit | **-** | (19) |
| Tax benefit/(expense) | **-** | 6 |
| Balance at the end of the financial year | **1,429** | 1,212 |
| *Cash flow hedges reserve* | | |
| Balance at the beginning of the financial year | **(2,486)** | - |
| Revaluation | **394** | (3,550) |
| Tax benefit | **(118)** | 1,064 |
| Balance at the end of the financial year | **(2,210)** | (2,486) |

### (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.

## 33 Reserves and retained earnings (continued)

### (c) Retained earnings

Movements in retained earnings were as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Balance at the beginning of the financial year | **191,886** | 170,085 |
| Dividends from a subsidiary to a non-controlling interest | **-** | (389) |
| Transfer to reserve for credit losses | **(217)** | (41) |
| Profit for the year | **29,406** | 22,231 |
| Balance at the end of the financial year | **221,075** | 191,886 |

## 34 Non-controlling interest

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Non-controlling interest | **1,233** | 1,229 |

The non-controlling interest is in connection with the 9.75% (2012: 9.75%) shareholding in a subsidiary by a related party which is not part of the consolidated entity.

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit after income tax for the year | **29,410** | 22,332 |
| Depreciation and amortisation | **15,391** | 14,853 |
| Impairment provision | **(205)** | 2,615 |
| Investment gains | **(11,737)** | (617) |
| Fair value gains on investment property | **(10,281)** | (8,999) |
| Net loss on sale of non-current assets | **282** | 1,378 |
| Share of net profits of associates and joint ventures | **(4,349)** | (1,327) |
| Business combination related expenses | **42** | 1,706 |
| General reserve | **-** | (19) |
| Changes in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | **15,504** | (9,227) |
| Decrease/(increase) in inventories | **22** | (37) |
| Increase in loans and advances | **(1,486)** | (436,539) |
| Increase in current tax assets | **(2,556)** | - |
| Decrease in deferred tax assets | **12,388** | 2,270 |
| Decrease in other operating assets | **123** | 473 |
| Increase/(decrease) in trade and other payables | **12,879** | (2,022) |
| Increase/(decrease) in deposits liability | **(36,684)** | 526,887 |
| Increase/(decrease) in current tax liabilities | **(9,070)** | 2,277 |
| Increase in deferred tax liabilities | **10,884** | 6,331 |
| Increase in provisions | **5,980** | 4,602 |
| Increase/(decrease) in benefit fund policy liabilities | **(20,484)** | 7,656 |
| Increase/(decrease) in other operating liabilities | **(43,244)** | 66,646 |
| Changes in net operating assets due to business combination | **-** | (77,778) |
| Net cash inflow / (outflow) from operating activities | **(37,191)** | 123,461 |

## 36 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 37.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 38.

### (d) Transactions and balances with related parties

Transactions and balances between the Group and related parties were as follows:

- Dividends received from associates and joint ventures, $1,739,003 (2012: $1,643,750).

## 36 Related party transactions (continued)

### (d) Transactions and balances with related parties (continued)

- Dividends from a subsidiary to a non-controlling interest, $nil (2012: $389,000).
- Investment management fees charged by associates and joint ventures, $6,863,124 (2012: $8,409,613).
- Commission, director fees and other costs charged to associates and joint ventures, $1,325,384 (2012: $1,503,421).
- Donations to a related charity organisation, $359,888 (2012: $222,000).
- Health insurance claims made by a related entity, $2,432,546 (2012: $1,761,585).
- Rental income from related entity, $464,496 (2012: $2,080,500).
- Loans provided to related entities, $nil (2012: $571,787).
- In May 2012, the Group purchased 2,400,000 issued shares in a subsidiary from a related party for $5,088,000. The fair value of net assets acquired was $2,585,848 and the share purchase resulted in goodwill on acquisition of $2,502,152.
- Trade and other receivables from related entities as at 30 June 2013, $430,337 (2012: $192,795).
- Trade and other payables to related entities as at 30 June 2013, $2,305,263 (2012: $444,014).
- Loans receivable from associates and joint ventures as at 30 June 2013, $203,255 (2012 : $200,664).
- Loans receivable from related entities as at 30 June 2013, $29,592,961 (2012: $29,595,263).
- Loan payable to related entity as at 30 June 2013, $2,800,000 (2012: $2,800,000).

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

## 37 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 2013 % | Equity holding 2012 % |
|---|---|---|---|---|
| ***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 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 |

## 37 Subsidiaries (continued)

| Name of entity | Country of incorporation | Holding | Equity holding 2013 % | Equity holding 2012 % |
|---|---|---|---|---|
| Australian Unity Health Limited | Australia | Shares | **100** | 100 |
| Australian Unity Health Care Pty Ltd | Australia | Shares | **100** | 100 |
| Australian Unity Property Limited | Australia | Shares | **100** | 100 |
| Australian Unity Property Management Proprietary Limited | Australia | Shares | **100** | 100 |
| Australian Unity Retail Network Proprietary Limited | Australia | Shares | **100** | 100 |
| Australian Unity Retirement Living Investments Limited | Australia | Shares | **100** | 100 |
| Australian Unity Retirement Living Services Limited | Australia | Shares | **100** | 100 |
| Australian Unity Strategic Holdings Pty Limited | Australia | Shares | **100** | 100 |
| Big Sky Building Society Limited | Australia | Shares | **100** | 100 |
| Grand United Corporate Health Limited | Australia | Shares | **100** | 100 |
| Remedy Healthcare Group Pty Ltd | Australia | Shares | **100** | 100 |
| ***Not wholly-owned by the Parent entity*** | | | | |
| Australian Unity Aged Care Investments Pty Ltd | Australia | Shares | **90.25** | 90.25 |
| Austraian Unity Aged Care Trust #1 | Australia | Units | **100** | 100 |
| Austraian Unity Aged Care Trust #2 | Australia | Units | **100** | 100 |
| Austraian Unity Aged Care Trust #3 | Australia | Units | **100** | 100 |
| Austraian Unity Aged Care Trust #4 | Australia | Units | **100** | 100 |
| Australian Unity Aged Care Trust #5 | Australia | Units | **100** | 100 |
| Australian Unity Aged Care Trust #6 | Australia | Units | **100** | 100 |
| Australian Unity Bondi Trust | Australia | Units | **100** | 100 |
| Australian Unity Bowral Development Pty Ltd | Australia | Shares | **100** | 100 |
| Australian Unity Care Services Pty Ltd | Australia | Shares | **90.25** | 90.25 |
| Australian Unity Carlton Aged Care Trust | Australia | Units | **90.25** | 90.25 |
| Australian Unity Greenfields Pty Ltd | Australia | Shares | **100** | 100 |
| Australian Unity Cranbourne Development Trust | Australia | Units | **100** | 100 |
| Australian Unity Investment Bonds Limited | Australia | Shares | **100** | 100 |
| Australian Unity Investments Trust | Australia | Units | **100** | 100 |
| Australian Unity Lilydale Development Trust | Australia | Units | **100** | 100 |
| Australian Unity Property Funds Management Ltd | Australia | Shares | **100** | 100 |
| Australian Unity Property Investment Management Limited | 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 (formerly Australian Unity Care Provider Holdings Pty Ltd) | Australia | Shares | **100** | 100 |
| Big Sky Financial Solutions Pty Ltd | Australia | Shares | **100** | 100 |
| Big Sky Financial Planning Pty Ltd | Australia | Shares | **100** | 100 |
| Campana Pty Ltd | Australia | Shares | **100** | 100 |
| Cash Enhanced Plus Internal Investment Trust | Australia | Units | **100** | 100 |
| Couhe Unit Trust | Australia | Units | **100** | 100 |

## 37 Subsidiaries (continued)

| | | | | |
|---|---|---|---|---|
| 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 |
| Greglea Village Management Pty Limited | Australia | Shares | **100** | 100 |
| High Yield Plus Internal Investment Trust | Australia | Units | **100** | 100 |
| Lifeplan Australia Friendly Society Limited | Australia | Shares | **100** | 100 |
| Long Duration Internal Investment Trust | Australia | Units | **100** | 100 |
| Mortgages No. 1 Internal Investment Trust | Australia | Units | **100** | 100 |
| Other Securities Internal Investment Trust | Australia | Units | **100** | 100 |
| Retirement Management Services Pty Limited | Australia | Shares | **100** | 100 |
| Retirement Village Property Fund | Australia | Units | **100** | 100 |
| Short Term Securities Internal Investment Trust | Australia | Units | **100** | 100 |
| The Australian Unity Mornington Development Trust | Australia | Units | **100** | 100 |
| The Australian Unity Sienna Grange Development Trust | Australia | Units | **100** | 100 |
| The Australian Unity Victoria Grange Development Trust | Australia | Units | **100** | 100 |
| The Governor's Retirement Resort Pty Ltd | Australia | Shares | **100** | 100 |
| Willandra Village Management Pty Ltd | Australia | Shares | **100** | 100 |
| National Friendly Society Limited* | Australia | 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).

In addition to the investments in associates and joint ventures (note 17) and subsidiaries, various entities in the Group invest in managed investment schemes for which the members of the Group act as the responsible entity. In determining whether such investments require to be consolidated as subsidiaries in the event of an equity holding exceeding 50% of the total equity of any such scheme, a distinction is drawn between those holdings which are beneficially owned by the Members of Australian Unity Limited and those which are beneficially owned by the policyholders of the benefit funds operated by subsidiaries in the Group even though both types of holding are legally owned by the Group. It is only when the holding beneficially owned by Members of Australian Unity Limited exceeds 50% of the total equity that the scheme is consolidated irrespective of whether a combined holding exceeds 50% of the total equity. This approach of distinguishing between legal and beneficial ownership relative to investments held by benefit funds parallels the requirement for responsible entities of managed investment schemes to act in the interests of the investors of those schemes irrespective of the legal ownership of or the ability to control the assets of the scheme.

Information on related party transactions is included in note 36.

## 38 Key management personnel disclosures

### (a) Key management personnel compensation

| | **2013** **$** | 2012 $ |
|---|---|---|
| Short-term employee benefits | **4,564,338** | 5,431,207 |
| Post-employment benefits | **206,296** | 351,380 |
| Long-term benefits | **750,479** | 748,669 |
| | **5,521,113** | 6,531,256 |

Detailed remuneration disclosures are provided in the Remuneration report in the Directors' report.

### (b) Other transactions with key management personnel

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

In accordance with rule 5.15.1 of the Parent entity's constitution, the Parent entity has determined at its Annual General Meeting that the maximum aggregate annual amount of remuneration payable by the Parent entity to non-executive directors of the Parent entity as fees for their services as directors is $1,200,000 per financial year. The actual amounts paid to non-executive directors of the Parent entity excluding retirement allowances for the 2013 financial year amounted to $1,062,019 (2012: $1,183,564). Directors' remuneration includes superannuation contributions in accordance with the Superannuation Guarantee Legislation. Information relating to the Group's superannuation funds is set out in note1(j).

The Group has also set aside a provision for directors' retirement allowances. At 30 June 2013, this provision amounted to $521,940 (2012: $485,722). During the 2013 financial year, no director received a retirement payment from the provision for directors' retirement allowances (2012: $550,000). There is no liability for retirement allowances in respect of directors appointed after the 2004 Annual General Meeting. The provision for directors' retirement allowances is included in the provision for employee entitlements.

During the 2012 financial year, Mr Warren French received an honorarium of $10,000 in his capacity as Grand Secretary of the Grand United Order of Oddfellows, which was funded by the Parent entity.

During the 2011 financial year, Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited, a wholly owned subsidiary), advanced a $500,000 loan to Mr John Butler. The loan was for five years, bearing interest at 7.19% per annum fixed for three years. At 30 June 2013, the balance outstanding was $464,050 (2012: $464,050). There are no other loans to key management personnel at 30 June 2013 (2012: none).

From time to time the directors of the Parent entity and its controlled entities may purchase or subscribe to the various products or securities offered by the Group. These transactions are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

## 39 Commitments

### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| *Payable within one year:* | | |
| Investment property | **23,774** | 15,680 |
| Intangible assets | **-** | 747 |
| | **23,774** | 16,427 |
| Total capital commitments | **23,774** | 16,427 |

### (b) Lease commitments: where a Group company is the lessee

Commitments for minimum lease payments in relation to non-cancellable operating leases contracted for at the end of the reporting period but not recognised as liabilities are payable as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Within one year | **4,835** | 2,432 |
| Later than one year but not later than five years | **8,369** | 8,717 |
| Later than five years | **528** | 404 |
| | **13,732** | 11,553 |

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of four years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

### (c) Lease commitments: where a Group company is the lessor

Future minimum lease payments receivable under non-cancellable operating leases are as follows :

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Within one year | **374** | 268 |
| Later than one year but not later than five years | **446** | 575 |
| | **820** | 843 |

## 39 Commitments (continued)

### (d) Credit related commitments

The Group has binding commitments to extend credit which are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

| | **2013** **$'000** | 2012 $'000 |
|---|---|---|
| Irrevocable approved but undrawn loans | **11,841** | 14,113 |
| Revocable loans with balances available for redraw | **36,831** | 34,986 |
| Revocable undrawn lines of credit, credit cards and overdrafts | **32,436** | 32,507 |
| | **81,108** | 81,606 |

## 40 Contingencies

### (a) 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 and Altius Asset Management Pty Ltd. As at 30 June 2013, the contingent liabilities are as follows:

- Wingate Asset Management Pty Limited amounted to $931,500 for 6,210,000 shares at 15.0 cents each (2012: $279,450 for 6,210,000 shares at 4.5 cents each);
- Seres Asset Management Limited amounted to $1,410,100 for 12,500,000 shares at 11.3 cents each (2012: $1,463,704 for 11,625,000 shares at 12.6 cents each); and
- Altius Asset Management Pty Ltd amounted to $339,575 for 425,000 shares at 79.9 cents each (2012: $276,675 for 2,324,998 shares at 11.9 cents each).

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

**Guarantees**

*Guarantee for computer equipment*
The Parent entity provides a financial guarantee of up to $5 million for computer equipment lease transactions entered into by a wholly owned subsidiary company. As at 30 June 2013, there was $2,345,710 (2012: $3,395,051) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

*Bank guarantee*
The Group has entered into bank guarantee arrangements totalling $7,604,222 (2012: $8,191,607) 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.

## 40 Contingencies (continued)

### (a) Contingent liabilities (continued)

*Liquidity support scheme*
Big Sky Building Society Limited (BSBS), a wholly owned subsidiary of the Group, is a party to the Credit Union Financial Support Scheme (CUFSS). CUFSS is a voluntary scheme in which all credit unions who are affiliated with Cuscal Limited have agreed to participate. CUFSS is a company limited by guarantee, each guarantee being $100.

As a CUFSS member, BSBS:

- may be required to advance funds of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support;
- may be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union requiring financial support; and
- agrees, in conjunction with other members, to fund the operating costs of CUFSS.

At 30 June 2013, no funding was required by and paid to CUFSS (2012: $nil).

## 41 Events occurring after the reporting period

On 3 July 2013, the Australian Prudential Regulatory Authority (APRA) approved the total transfer of the business of Australian Unity Investment Bonds Limited (AUIBL) to Lifeplan Australia Friendly Society Limited (LAFS) under the *Financial Sector (Business Transfer and Group Restructure) Act 1999*. As this was a voluntary transfer at the request of AUIBL and LAFS there was no consideration paid and, as the transfer took place wholly within the Group, there was no impact on the Group's financial position or results.

On 11 July 2013, the Group repaid the $25,000,000 subordinated capital notes outstanding as at 30 June 2013 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% per annum. On the same day, the Company entered into a hedge contract for five years to swap the variable component of the interest rate at 3.71% per annum. With the hedge contract, the effective interest rate of the new notes is fixed at 6.71% per annum until 11 July 2018.

The board is not aware of any other matter or circumstance arising since 30 June 2013 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.

## 42 Remuneration of auditors

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

### (a) Audit and other assurance services

| | 2013 $ | 2012 $ |
|---|---|---|
| Ernst & Young Australian firm | | |
| Audit and review of financial statements | **1,364,422** | 1,307,481 |
| Audit of regulatory returns | **285,089** | 267,451 |
| Other assurance services | **-** | 111,229 |
| Total remuneration for audit and other assurance services | **1,649,511** | 1,686,161 |

### (b) Taxation and other services

| | 2013 $ | 2012 $ |
|---|---|---|
| Ernst & Young Australian firm | | |
| Tax compliance services | **443,436** | 288,520 |
| Tax consulting services | **505,868** | 468,976 |
| Other services | **69,043** | 57,415 |
| Total remuneration for taxation and other services | **1,018,347** | 814,911 |
| | | |
| **Total auditors' remuneration** | **2,667,858** | 2,501,072 |

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.

## 43 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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Premium revenue** | **706,315** | 646,457 |
| Claims expense | **(598,769)** | (534,777) |
| Net risk equalisation trust fund recoveries | **22,370** | 19,120 |
| State levies | **(4,284)** | (3,647) |
| **Net claims incurred** | **(580,683)** | (519,304) |
| Acquisition costs | **(42,278)** | (41,238) |
| Other underwriting expenses | **(2,914)** | (2,948) |
| | **(45,192)** | (44,186) |
| **Underwriting result** | **80,440** | 82,967 |
| Net investment income | **21,726** | 12,206 |
| Employee benefits expense | **(22,914)** | (17,960) |
| Other expenses from ordinary activities | **(21,632)** | (20,433) |
| Finance costs | **(3,200)** | (3,175) |
| | **(26,020)** | (29,362) |
| **Profit before income tax** | **54,420** | 53,605 |
| Income tax expense | **(15,030)** | (15,905) |
| **Profit after income tax** | **39,390** | 37,700 |

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| ***Movement in net RETF receivable*** | | |
| Balance at the beginning of the financial year | **5,824** | 6,401 |
| Net RETF raised during the year | **22,370** | 19,120 |
| Net RETF received during the year | **(22,580)** | (19,697) |
| Balance at the end of the financial year | **5,614** | 5,824 |

## 43 Health insurance (continued)

### (c) Outstanding claims provision

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Outstanding claims - central estimate of the expected present value of future payments for claims incurred | **45,961** | 43,216 |
| Risk margin | **3,877** | 3,418 |
| Claims handling costs | **1,174** | 974 |
| Gross outstanding claims liability | **51,012** | 47,608 |
| **Movement in the gross outstanding claims provision** | | |
| Balance at the beginning of the financial year | **47,608** | 44,808 |
| Claims incurred during the year | **598,769** | 534,777 |
| Claims paid during the year | **(595,365)** | (531,977) |
| Balance at the end of the financial year | **51,012** | 47,608 |
| Current | **51,012** | 47,608 |

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 8.2% (2012: 7.7%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2012: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments and the results are assumed to be indicative of future volatility.

The outstanding claims estimate for the retail health business is derived using all data combined in an aggregate model. As such, diversification benefits have been implicitly allowed for in this process. The outstanding claims liability has been estimated using both a stochastic model, based on historical experience, and the modified chain ladder method. Subsequent judgement is then applied to both the outcomes in determining the value of the liability to hold. Consequently, changes in assumptions will not have a material impact on the estimate.

The outstanding claims estimate for the corporate health business is derived using separate calculations on the data for hospital claims and ancillary claims. The outstanding claims liability has been estimated based on historical experience using the modified chain ladder method.

The weighted average expected term to settlement of claims from the end of the reporting period is estimated to be 2 months (2012: 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% | -1,609 | -1,609 |
| Central estimate | -5% | 1,609 | 1,609 |
| Claims handling | +10% | -82 | -82 |
| Claims handling | -10% | 82 | 82 |

## 43 Health insurance (continued)

### (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 2013 (2012: $nil) at a 75% (2012: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

## 44 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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Life investment contract liabilities | **633,905** | 595,968 |
| Life insurance contract liabilities - guaranteed element | **1,152,530** | 1,229,669 |
| Life insurance contract liabilities - other | **649** | 1,223 |
| Unvested policyholder liabilities | **46,147** | 26,855 |
| **Total policy liabilities** | **1,833,231** | 1,853,715 |
| | | |
| Expected to be realised within 12 months | **221,513** | 225,453 |
| Expected to be realised in more than 12 months | **1,611,718** | 1,628,262 |
| | **1,833,231** | 1,853,715 |

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| ***Life investment contract liabilities*** | | |
| Balance at the beginning of the financial year | **595,968** | 601,901 |
| Increase/(decrease) recognised in the profit or loss | **47,806** | 2,673 |
| Premiums recognised as a change in contract liabilities | **69,886** | 85,506 |
| Claims recognised as a change in contract liabilities | **(79,755)** | (94,112) |
| Life investment contract liabilities at the end of financial the year | **633,905** | 595,968 |
| | | |
| ***Life insurance contract liabilities*** | | |
| Balance at the beginning of the financial year | **1,230,892** | 1,215,245 |
| Increase/(decrease) recognised in the profit or loss | **(77,713)** | 15,647 |
| Life insurance contract liabilities at the end of the financial year | **1,153,179** | 1,230,892 |

## 44 Benefit fund policy liabilities (continued)

### (b) Reconciliation of changes in policy liabilities (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| ***Unvested policyholder liabilities*** | | |
| Balance at the beginning of the financial year | **26,855** | 28,912 |
| Increase/(decrease) recognised in the profit or loss | **19,292** | (2,057) |
| Unvested policyholder benefits liability at the end of the financial year | **46,147** | 26,855 |
| **Net policy liabilities at the end of the financial year** | **1,833,231** | 1,853,715 |

### (c) Analysis of policy liability revenue and expenses

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Revenue and other income** | | |
| Total life insurance and participating contract premium revenue | **62,655** | 95,324 |
| Reinsurance premium | **(416)** | (390) |
| **Life insurance contract premium revenue** | **62,239** | 94,934 |
| Interest income | **1,194** | 3,897 |
| Distribution income | **68,750** | 73,886 |
| Realised losses | **(14,264)** | (11,080) |
| Unrealised gains | **62,608** | 26,760 |
| Other income | **156** | 209 |
| **Total revenue and other income** | **180,683** | 188,606 |
| **Expenses** | | |
| Total life insurance and participating contract claims expense | **141,746** | 132,588 |
| **Life insurance contract claims expense** | **141,746** | 132,588 |
| Policy maintenance expenses - life insurance contracts | | |
| Commissions | **13** | 10 |
| Management fees | **21,448** | 20,725 |
| Other expenses | **533** | 1,703 |
| Movement in life insurance contract liabilities | **(77,713)** | 14,647 |
| Movement in unvested policyholder liabilities | **19,292** | (1,057) |
| Movement in life investment contract liabilities | **47,806** | 2,673 |
| **Total expenses** | **153,125** | 171,289 |

### (d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2013. 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.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

**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 (2012: LPS 1.04) 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 2013 were as follows:

| Fund Name | Discount Basis[1] | Mean Liability Term (Yrs) | Gross Discount Rate | Fees (% of Assets) | Tax Rate | Discount Rate Net of Tax and Fees | Mortality Basis[2] |
|---|---|---|---|---|---|---|---|
| Assurance Benefit Fund | 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 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 | Zero Coupon CGS Rate | 14 | 4.26% | 1.80% | 0.00% | 2.46% | 100% of ALT2009-11 |
| Travel Protection | Zero Coupon CGS Rate | 13 | 4.18% | 0.00% | 0.00% | 4.18% | 85% of ALT2009-11 |
| Whole of Life Funeral | Zero Coupon CGS Rate | 11.5 | 4.06% | 1.50% | 0.00% | 2.56% | 110% of ALT2009-11 |

Notes:
1 The zero coupon Commonweath Government Security rate corresponding to the mean guaranteed liability term.
2 ALT2009-11 refers to Australian Life Tables (Male and Female) 2009-2011.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2012 were as follows:

| Fund Name | Discount Basis[3] | Mean Liability Term (Yrs) | Gross Discount Rate | Fees (% of Assets) | Tax Rate | Discount Rate Net of Tax and Fees | Mortality Basis[4] |
|---|---|---|---|---|---|---|---|
| Assurance Benefit Fund | Swap Rate | 15 | 4.32% | 1.80% | 30.00% | 1.76% | 50% of ALT0507 |
| Endowment and Funeral Fund - Funeral Fund | Swap Rate | 20 | 4.20% | 0.00% | 0.00% | 4.20% | 50% of ALT0507 |
| Life Assurance Fund | Swap Rate | 12 | 4.18% | 2.25% | 30.00% | 1.35% | 50% of ALT0507 |
| Central Sick and Funeral Fund | Swap Rate | 11 | 4.14% | 2.00% | 0.00% | 2.14% | 50% of ALT0507 |
| Funeral and Ancillary | Swap Rate | 16 | 4.32% | 2.00% | 0.00% | 2.32% | 80% of ALT0507 |
| Travel Protection | Swap Rate | 13 | 4.23% | 0.00% | 0.00% | 4.23% | 85% of ALT0507 |
| Whole of Life Funeral | Swap Rate | 14 | 4.28% | 1.50% | 0.00% | 2.78% | 70% of ALT0507 |

Notes:
3 The mid swap rate corresponding to the mean liability term.
4 ALT0507: Australian Life Tables (Male and Female) 2005-2007.

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

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 2.6 percent (2012: 2.5 percent) per annum; and
- For the Travel Protection Fund, the proportion of claims (arising from each death) is 5.0 percent (2012: 5.0 percent) and the average claim amount is $1,200 (2012: $1,152) inflating at 2.6 percent (2012: 2.5 percent) per annum.

For the remaining defined benefit funds, policy liabilities are valued using the accumulation method. For the Personal Risk Insurance Fund the policy liability is equal to 100% of the annual premium. For the Accidental Death Benefits Fund the policy liability is equal to 50% of the annual premium. For the Adult Accident Fund and Student Accident Fund the policy liability is equal to the unearned premium plus the outstanding claim liability, determined by reference to the past delay pattern of claim payments.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

**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 (2012: LPS 1.04) issued by APRA under the *Life Insurance Act 1995.*

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

The Grand Bonds Assurance Fund has an additional death benefit and bonus guarantee. The liability for bonus guarantees has been evaluated by inspecting individual policies that may give rise to bonus guarantees. The liability for additional death benefits was calculated assuming mortality and discounting. The liability for death benefits was then subjected to a minimum equal to the largest exposure to a single member in the fund. The minimum was adopted.

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.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

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 Basis[1] | Mean Liability Term (Yrs) | Gross Discount Rate | Fees (% of Assets) | Tax Rate | Discount Rate Net of Tax and Fees | Mortality Basis[2] |
|---|---|---|---|---|---|---|---|
| Capital Guaranteed Funeral Bond (Non Taxable) | Zero Coupon CGS Rate plus illiquidity premium | 8 | 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 | 4.28% | 2.05% | 30.00% | 1.56% | 130% of ALT2009-11 |
| Capital Secure Funeral Bond | Zero Coupon CGS Rate plus illiquidity premium | 6 | 3.70% | 1.53% | 0.00% | 2.17% | 100% of ALT2009-11 |
| Funeral Bond | Zero Coupon CGS Rate plus illiquidity premium | 8 | 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:
1 The zero coupon Commonweath Government Security rate corresponding to the mean guaranteed liability term plus an illiquidity premium.
2 ALT2009-11 refers to Australian Life Tables (Male and Female) 2009-2011.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2012 were as follows:

| Fund Name | Discount Basis[3] | Mean Liability Term (Yrs) | Gross Discount Rate | Fees (% of Assets) | Tax Rate | Discount Rate Net of Tax and Fees | Mortality Basis[4] |
|---|---|---|---|---|---|---|---|
| Capital Guaranteed Funeral Bond (Non Taxable) | Swap Rate | 8 | 3.97% | 2.05% | 0.00% | 1.92% | 105% of ALT0507 |
| Capital Guaranteed Funeral Bond (Taxable) | Swap Rate | 10 | 4.09% | 2.05% | 30.00% | 1.43% | 115% of ALT0507 |
| Capital Secure Funeral Bond | Swap Rate | 6 | 3.79% | 1.53% | 0.00% | 2.26% | 100% of ALT0507 |
| Funeral Bond | Swap Rate | 8 | 3.97% | 1.50% | 0.00% | 2.47% | 90% of ALT0507 |
| Prepaid Funeral Fund | Swap Rate | 8 | 3.93% | 1.50% | 0.00% | 2.43% | 110% of ALT0507 |
| Funeral Fund No 2 - Non Taxable | Swap Rate | 8 | 3.97% | 2.00% | 0.00% | 1.97% | 115% of ALT0507 |
| Funeral Fund No 2 - Taxable | Swap Rate | 8 | 3.97% | 2.00% | 30.00% | 1.38% | 115% of ALT0507 |
| Tax Minimiser Funeral Fund | Swap Rate | 7 | 3.90% | 1.50% | 30.00% | 1.68% | 200% of ALT0507 |

Notes
3 The mid swap rate corresponding to the mean guaranteed liability term.
4 ALT0507 refers to Australian Life Tables (Male and Female) 2005 2007.

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

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.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

**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.

## 44 Benefit fund policy liabilities (continued)

### (d) Actuarial methods and assumptions (continued)

**Effects of changes in assumptions**

There are no material changes in actuarial assumptions which affect the valuation of policy liabilities at 30 June 2013. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

### (e) Nature of risks arising from insurance contracts

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

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

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

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

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

**Concentrations**

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

**Interest rate risk**

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

**Credit risk**

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

## 44 Benefit fund policy liabilities (continued)

### (f) Solvency and capital adequacy information

Under the *Life Insurance Act 1995*, the Group is required to hold a prudential capital requirement over and above their policy liabilities, as a buffer against adverse experience and poor investment returns. The minimum level of reserves required to be held are specified by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118 (2012: LPS 2.04 and LPS 3.04). These standards have been met for all benefit funds as at 30 June 2013 and 2012.

For each benefit fund subject to a solvency requirement, the figures in note 45 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 45 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

## 45 Disaggregated information - Benefit Funds

### (a) Non-investment linked benefit funds

| 30 June 2013 | Revenue<br>Net premium<br>$'000 | Revenue<br>Investment<br>$'000 | Revenue<br>Other<br>$'000 | Expenses<br>Claims<br>$'000 | Expenses<br>Other<br>$'000 | Profit/(loss) for the year<br>Before tax<br>$'000 | Profit/(loss) for the year<br>After tax<br>$'000 |
|---|---|---|---|---|---|---|---|
| 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) | - |

| 30 June 2012 | Net premium<br>$'000 | Investment<br>$'000 | Other<br>$'000 | Claims<br>$'000 | Other<br>$'000 | Before tax<br>$'000 | After tax<br>$'000 |
|---|---|---|---|---|---|---|---|
| Accidental death benefits | 112 | 16 | - | - | 136 | (8) | - |
| Adult accident | 21 | 4 | - | 2 | 19 | 4 | - |
| Assurance benefit fund | - | 1,500 | - | 340 | 766 | 394 | - |
| Central sick and funeral fund | - | 970 | - | 293 | 677 | - | - |
| Funeral and ancillary benefits | 10 | 1,933 | - | 611 | 1,332 | - | - |
| Funeral fund | - | 1,566 | - | 431 | 1,135 | - | - |
| Life assurance fund | - | 1,937 | - | 261 | 1,237 | 439 | - |
| Personal risk fund | 18 | 14 | - | - | 187 | (155) | - |
| Student accident | 31 | 9 | - | 4 | 27 | 9 | - |
| Travel protection funeral | 47 | 81 | - | 15 | 75 | 38 | - |
| Whole of life funeral | - | 68 | - | 27 | 41 | - | - |
| **Total non-investment linked benefit fund - Life insurance contracts** | 239 | 8,098 | - | 1,984 | 5,632 | 721 | - |

## 45 Disaggregated information - Benefit Funds (continued)

### (a) Non-investment linked benefit funds (continued)

| | Assets | | Liabilities | | Equity | |
|---|---|---|---|---|---|---|
| **30 June 2013** | **Investments $'000** | **Other $'000** | **Life insurance $'000** | **Other $'000** | **Equity $'000** | **Coverage of Solvency Reserve %** |
| 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** | **-** | |

| **30 June 2012** | | | | | | |
|---|---|---|---|---|---|---|
| Accidental death benefits | 436 | 62 | 536 | (38) | - | 36 |
| Adult accident | 86 | 14 | 100 | - | - | 38 |
| Assurance benefit fund | 12,347 | - | 11,930 | 417 | - | 96 |
| Central sick and funeral fund | 6,603 | - | 6,587 | 16 | - | 89 |
| Funeral and ancillary benefits | 14,237 | - | 14,170 | 67 | - | 99 |
| Funeral fund | 11,498 | - | 11,498 | - | - | 97 |
| Life assurance fund | 13,353 | - | 12,654 | 699 | - | 95 |
| Personal risk fund | 159 | 39 | 331 | (133) | - | 77 |
| Student accident | 215 | 37 | 256 | (4) | - | 32 |
| Travel protection funeral | 848 | - | 874 | (26) | - | 59 |
| Whole of life funeral | 755 | - | 620 | 135 | - | 92 |
| **Total non-investment linked benefit fund - Life insurance contracts** | 60,537 | 152 | 59,556 | 1,133 | - | |

## 45 Disaggregated information - Benefit Funds (continued)

**(b) Investment linked benefit fund - Life investment contracts with discretionary participating features**

| | Revenue | | | Expenses | | Profit/(loss) for the year | |
|---|---|---|---|---|---|---|---|
| **30 June 2013** | **Deposits $'000** | **Investment $'000** | **Other $'000** | **Claims $'000** | **Other $'000** | **Before Tax $'000** | **After Tax $'000** |
| 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 fund 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 | - |

## 45 Disaggregated information - Benefit Funds (continued)

### (b) Investment linked benefit fund - Life investment contracts with discretionary participating features (continued)

| | Revenue | | | Expenses | | Profit/(loss) for the year | |
|---|---|---|---|---|---|---|---|
| **30 June 2012** | Deposits $'000 | Investment $'000 | Other $'000 | Claims $'000 | Other $'000 | Before Tax $'000 | After Tax $'000 |
| Bonus accumulation | 764 | 8,714 | - | 27,022 | (20,302) | 2,758 | - |
| Bonus bond no 1 | 1,802 | 2,463 | 86 | 8,301 | (4,092) | 142 | - |
| Capital guaranteed bond | 356 | 7,684 | - | 12,605 | (6,375) | 1,810 | - |
| Capital guaranteed deferred annuity | - | 62 | - | 80 | (20) | 2 | - |
| Capital guaranteed funeral bond (non-taxable) | 132 | 2,499 | - | 3,476 | (842) | (3) | - |
| Capital guaranteed funeral bond (taxable) | 6,617 | 3,571 | 3 | 4,385 | 4,982 | 824 | - |
| Capital guaranteed mortgage bond | 125 | 1,678 | - | 4,618 | (3,229) | 414 | - |
| Capital secure funeral bond | 64 | 1,776 | - | 2,851 | (1,010) | (1) | - |
| Community bond | 871 | 4,104 | 45 | 8,707 | (4,987) | 1,300 | - |
| Education savings plan | 1,839 | 729 | - | 1,748 | 507 | 313 | - |
| Flexishield bond | 290 | 1,807 | 38 | 5,166 | (3,632) | 601 | - |
| Funeral fund no 2 | 1,197 | 26,706 | 6 | 20,210 | 4,353 | 3,346 | - |
| Funeral bond | 48 | 891 | - | 630 | 308 | 1 | - |
| Grand bonds assurance fund | 23 | 301 | - | 398 | (147) | 73 | - |
| NextGen investments capital guaranteed | 43,641 | 3,713 | - | 14,344 | 32,210 | 800 | - |
| Prepaid funeral | 5 | 753 | - | 699 | 59 | - | - |
| Tax minimiser funeral | 36,921 | 8,335 | - | 15,035 | 27,238 | 2,983 | - |
| Telecom rollover | - | 98 | - | 329 | (239) | 8 | - |
| **Total investment linked benefit fund - Life investment contracts with discretionary participating features** | 94,695 | 75,884 | 178 | 130,604 | 24,782 | 15,371 | - |

## 45 Disaggregated information - Benefit Funds (continued)

**(b) Investment linked benefit fund - Life investment contracts with discretionary participating features (continued)**

| | Assets | | Liabilites | | Equity | |
|---|---|---|---|---|---|---|
| **30 June 2013** | **Investments $'000** | **Other $'000** | **Life insurance $'000** | **Other $'000** | **Equity $'000** | **Coverage of Solvency Reserve %** |
| 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 fund 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 | - | |

## 45 Disaggregated information - Benefit Funds (continued)

### (b) Investment linked benefit fund - Life investment contracts with discretionary participating features (continued)

| | Assets | | Liabilites | | Equity | |
|---|---|---|---|---|---|---|
| **30 June 2012** | Investments $'000 | Other $'000 | Life insurance $'000 | Other $'000 | Equity $'000 | Coverage of Solvency Reserve % |
| Bonus accumulation | 191,536 | - | 191,761 | (225) | - | 100 |
| Bonus bond no 1 | 44,930 | 258 | 44,926 | 262 | - | 96 |
| Capital guaranteed bond | 138,929 | 1 | 136,973 | 1,957 | - | 99 |
| Capital guaranteed deferred annuity | 1,281 | 6 | 1,284 | 3 | - | 98 |
| Capital guaranteed funeral bond (non-taxable) | 44,843 | 460 | 45,234 | 69 | - | 100 |
| Capital guaranteed funeral bond (taxable) | 65,965 | 622 | 66,174 | 413 | - | 100 |
| Capital guaranteed mortgage bond | 32,676 | - | 32,392 | 284 | - | 98 |
| Capital secure funeral bond | 32,013 | 343 | 32,315 | 41 | - | 100 |
| Community bond | 70,638 | 303 | 69,946 | 995 | - | 98 |
| Education savings plan | 12,587 | 529 | 12,998 | 118 | - | 99 |
| Flexishield bond | 37,851 | 72 | 37,479 | 444 | - | 98 |
| Funeral fund no 2 | 234,206 | 13,740 | 249,589 | (1,643) | - | 100 |
| Funeral bond | 7,392 | 234 | 7,613 | 13 | - | 100 |
| Grand bonds assurance fund | 5,678 | - | 5,619 | 59 | - | 99 |
| NextGen investments capital guaranteed | 100,161 | - | 96,961 | 3,200 | - | 100 |
| Prepaid funeral | 6,256 | 225 | 6,476 | 5 | - | 100 |
| Tax minimiser funeral | 161,567 | 2,429 | 158,353 | 5,643 | - | 100 |
| Telecom rollover | 2,145 | - | 2,098 | 47 | - | 99 |
| **Total investment linked benefit fund - Life investment contracts with discretionary participating features** | 1,190,654 | 19,222 | 1,198,191 | 11,685 | - | |

## 45 Disaggregated information - Benefit Funds (continued)

### (c) Investment linked benefit fund - Investment contracts

| | Revenue | | | Expenses | | Profit/(loss) for the year | |
|---|---|---|---|---|---|---|---|
| 30 June 2013 | Net Premium $'000 | Investment $'000 | Other $'000 | Claims $'000 | Other $'000 | Before Tax $'000 | After Tax $'000 |
| 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 | - |

## 45 Disaggregated information - Benefit Funds (continued)

### (c) Investment linked benefit fund - Investment contracts (continued)

| | Revenue | | | Expenses | | Profit/(loss) for the year | |
|---|---|---|---|---|---|---|---|
| **30 June 2012** | Net Premium $'000 | Investment $'000 | Other $'000 | Claims $'000 | Other $'000 | Before Tax $'000 | After Tax $'000 |
| Balanced growth bond | - | (28) | - | - | 127 | (155) | - |
| Capital base | - | 1,873 | - | - | 1,278 | 595 | - |
| Conservative growth bond | - | 581 | - | - | 449 | 132 | - |
| Education bond long-term portfolio | - | (183) | - | - | (99) | (84) | - |
| Education bond medium-term portfolio | - | (3) | - | - | 5 | (8) | - |
| Education bond short-term portfolio | - | 7 | - | - | 6 | 1 | - |
| Education savings plan | - | (359) | 22 | - | (1,054) | 717 | - |
| Flexigrowth | - | 804 | - | - | 804 | - | - |
| Growth investment | - | (20) | - | - | 85 | (105) | - |
| High growth bond | - | (106) | - | - | (211) | 105 | - |
| Income | - | 997 | 2 | - | 999 | - | - |
| Managed investment | - | 1,241 | - | - | 1,193 | 48 | - |
| NextGen investments | - | 3,926 | 4 | - | 3,430 | 500 | - |
| Select strategies | - | 577 | - | - | 1,001 | (424) | - |
| TaxSmart | - | 545 | - | - | 396 | 149 | - |
| Wealth builder | - | (371) | 3 | - | (122) | (246) | - |
| **Total Investment linked benefit fund - Investment contracts without discretionary participating features** | - | 9,481 | 31 | - | 8,287 | 1,225 | - |

## 45 Disaggregated information - Benefit Funds (continued)

### (c) Investment linked benefit fund - Investment contracts (continued)

| | Assets | | Liabilities | | Equity |
|---|---|---|---|---|---|
| **30 June 2013** | **Investments $'000** | **Other $'000** | **Life insurance $'000** | **Other $'000** | **Equity $'000** |
| 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** | **-** |

| **30 June 2012** | | | | | |
|---|---|---|---|---|---|
| Balanced growth bond | 26,256 | 719 | 27,048 | (73) | - |
| Capital base | 41,168 | 8 | 40,537 | 639 | - |
| Conservative growth bond | 14,046 | 1 | 13,640 | 407 | - |
| Education bond long term portfolio | 4,858 | 204 | 5,230 | (168) | - |
| Education bond medium term portfolio | 1,201 | 16 | 1,227 | (10) | - |
| Education bond short term portfolio | 195 | 2 | 200 | (3) | - |
| Education savings plan | 68,982 | 4,179 | 69,816 | 3,345 | - |
| Flexigrowth | 14,836 | - | 14,668 | 168 | - |
| Growth investment | 23,420 | 934 | 24,200 | 154 | - |
| High growth bond | 3,323 | 206 | 3,419 | 110 | - |
| Income | 19,463 | 2 | 19,460 | 5 | - |
| Managed investment | 79,041 | 751 | 78,751 | 1,041 | - |
| NextGen investments | 140,923 | 819 | 140,107 | 1,635 | - |
| Select strategies | 134,002 | 5,005 | 139,319 | (312) | - |
| TaxSmart | 12,164 | 29 | 11,902 | 291 | - |
| Wealth builder | 6,233 | 197 | 6,444 | (14) | - |
| **Total investment linked benefit fund - Investment contracts without discretionary participating features** | 590,111 | 13,072 | 595,968 | 7,215 | - |

## 45 Disaggregated information - Benefit Funds (continued)

### (d) Summarised information by investment type

| | Revenue | | | Expenses | | Profit/(loss) for the year | |
|---|---|---|---|---|---|---|---|
| **30 June 2013** | **Net Premium / Deposits $'000** | **Investment $'000** | **Other $'000** | **Claims $'000** | **Other $'000** | **Before Tax $'000** | **After Tax $'000** |
| 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** | **-** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2012** | | | | | | | |
| Non-investment linked benefit fund - Life insurance contracts | 239 | 8,098 | - | 1,984 | 5,632 | 721 | - |
| Investment linked benefit fund - Life investment contracts with discretionary participating features | 94,695 | 75,884 | 178 | 130,604 | 24,782 | 15,371 | - |
| Investment linked benefit fund - Investment contracts | - | 9,481 | 31 | - | 8,287 | 1,225 | - |
| **Total** | 94,934 | 93,463 | 209 | 132,588 | 38,701 | 17,317 | - |

## 45 Disaggregated information - Benefit Funds (continued)

### (d) Summarised information by investment type (continued)

| | Assets | | Liabilities | | Equity |
|---|---|---|---|---|---|
| **30 June 2013** | **Investments $'000** | **Other $'000** | **Life Insurance $'000** | **Other $'000** | **Equity $'000** |
| 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** | **-** |

| | | | | | |
|---|---|---|---|---|---|
| **30 June 2012** | | | | | |
| Non-investment linked benefit fund - Life insurance contracts | 60,537 | 152 | 59,556 | 1,133 | - |
| Investment linked benefit fund - Life investment contracts with discretionary participating features | 1,190,654 | 19,222 | 1,198,191 | 11,685 | - |
| Investment linked benefit fund - Investment contracts | 590,111 | 13,072 | 595,968 | 7,215 | - |
| **Total** | 1,841,302 | 32,446 | 1,853,715 | 20,033 | - |

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.

## 46 Reconciliation of profit attributable to members of Australian Unity Limited

| | 2013 | | |
|---|---|---|---|
| | Attributable to members of Australian Unity Limited $'000 | Attributable to benefit fund policyholders $'000 | Consolidated Profit or Loss $'000 |
| Revenue | 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 benefit/(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

## 46 Reconciliation of profit attributable to members of Australian Unity Limited (continued)

| | 2012 | | |
|---|---|---|---|
| | Attributable to members of Australian Unity Limited $'000 | Attributable to benefit fund policyholders $'000 | Consolidated Profit or Loss $'000 |
| Revenue | 845,669 | - | 845,669 |
| Direct life insurance premium revenue | - | 629 | 629 |
| Outwards reinsurance expense | - | (390) | (390) |
| Deposits received - investment contracts with DPF* | - | 94,695 | 94,695 |
| Investment income | - | 93,463 | 93,463 |
| Other | - | 209 | 209 |
| **Total revenue and other income** | 845,669 | 188,606 | 1,034,275 |
| Life insurance claims expense | - | 1,984 | 1,984 |
| Benefits and withdrawals paid - investment contracts with DPF* | - | 130,604 | 130,604 |
| Distribution to policyholders | - | 29,124 | 29,124 |
| Expenses excluding finance costs | 791,695 | 9,577 | 801,272 |
| **Total expenses, excluding finance costs** | 791,695 | 171,289 | 962,984 |
| Finance costs | (33,129) | - | (33,129) |
| Share of net profits of associates and joint ventures | 1,327 | - | 1,327 |
| **Profit before income tax** | 22,172 | 17,317 | 39,489 |
| Income tax benefit/(expense) | 160 | (17,317) | (17,157) |
| **Profit after income tax** | 22,332 | - | 22,332 |
| Non-controlling interest | (101) | - | (101) |
| **Profit after income tax and non-controlling interest** | 22,231 | - | 22,231 |

*DPF = Discretionary Participating Feature

## 47 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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest income | **34,512** | 17,124 |
| Interest expense | **(18,990)** | (11,566) |
| **Net interest income** | **15,522** | 5,558 |
| Non-interest income | **2,921** | 1,131 |
| **Total income** | **18,443** | 6,689 |
| Impairment reversal/(losses) on loans and advances | **(673)** | 4 |
| Other operating expenses | **(16,770)** | (4,934) |
| **Total expenses** | **(17,443)** | (4,930) |
| **Profit before income tax** | **1,000** | 1,759 |
| Income tax expense | **(677)** | (533) |
| **Profit after income tax attributable to the owners of Big Sky Building Society Limited** | **323** | 1,226 |

### (b) Financial position summary

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash and cash equivalents | **14,300** | 14,177 |
| Financial assets at fair value through profit or loss | **36,231** | 36,674 |
| Held-to-maturity investments | **58,769** | 94,487 |
| Loans and advances | **506,741** | 505,436 |
| Other assets | **2,724** | 4,665 |
| **Total assets** | **618,765** | 655,439 |
| Interest bearing liabilities | **562,238** | 599,245 |
| Other liabilities | **8,521** | 8,511 |
| **Total liabilities** | **570,759** | 607,756 |
| **Net assets** | **48,006** | 47,683 |

## 47 Building society financial information (continued)

### (c) Capital adequacy

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Reserves and retained earnings | **48,006** | 46,858 |
| Less regulatory prescribed adjustments | **(786)** | (1,907) |
| Regulatory capital base | **47,220** | 44,951 |
| Risk weighted exposures | **286,084** | 302,340 |
| Capital adequacy ratio | **16.51%** | 14.87% |

## 48 Parent entity financial information

### (a) Summary financial information

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **35,391** | 23,060 |
| Non-current assets | **598,042** | 601,655 |
| **Total assets** | **633,433** | 624,715 |
| | | |
| Current liabilities | **83,577** | 85,552 |
| Non-current liabilities | **141,236** | 147,845 |
| **Total liabilities** | **224,813** | 233,397 |
| | | |
| Members' balances | **255,625** | 255,625 |
| Reserves | **(2,123)** | (2,123) |
| Retained earnings | **155,118** | 137,816 |
| **Total equity** | **408,620** | 391,318 |
| | | |
| **Profit for the year** | **17,301** | 7,372 |
| | | |
| **Total comprehensive income for the year** | **17,301** | 7,372 |

### (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 2013 or 30 June 2012.

### (d) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2013 and 2012.

In the directors' opinion:

(a) the financial statements and notes set out on pages 33 to 152 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 2013 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 2013

Building a better working world

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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 2013, 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:

a. the financial report of Australian Unity Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

## Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 19 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
27 August 2013