Australian Unity Limited

ABN 23 087 648 888

Interim financial report for the half-year ended 31 December 2016

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Interim financial report - 31 December 2016

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The financial statements were authorised for issue by the directors on 1 March 2017.

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 half-year ended 31 December 2016.

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

Peter Promnitz, Chair
Rohan Mead, Group Managing Director & CEO
Melinda Cilento, Non-executive Director
Paul Kirk, Non-executive Director
Su McCluskey, Non-executive Director
Stephen Maitland, Non-executive Director
Greg Willcock, Non-executive Director

Company secretaries
Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited as at the date of this report.

Operating and financial review
During the half-year to 31 December 2016, Australian Unity continued to progress its ambition of creating community value with a sound commercial approach and delivered a profit after income tax of $16.6 million, an increase of $2.4 million or 16.4 percent compared to the corresponding period last year (31 December 2015: $14.2 million).

This was a creditable outcome given the integration and additional funding costs associated with the major transfer to the Group in February 2016 of the home care operations of the New South Wales Government (Home Care NSW). This transfer added approximately 50,000 clients and more than 4,000 employees to the Group, considerably enhancing the scale of the Group's operations. The effects of this change are seen throughout this interim financial report.

Total revenue and other income increased by $271.3 million or 43.0 percent to $901.7 million. This positive result flowed largely from overall operating revenue growth generated by the Group's business segments, particularly in Independent & Assisted Living as a result of the Home Care NSW transfer and Health Insurance. Increased benefit fund revenue contributed positively to this interim result, offsetting the ongoing impact of low interest rates throughout the half-year.

Total expenses, excluding financing costs, increased to $879.4 million (2016: $600.1 million). This increase resulted from higher remuneration costs reflecting the scale of the Home Care transfer and higher benefit fund expenses.

Overall, the outcome for the Group represented a small reduction in operating earnings, down $0.5 million from last year to $18.2 million (2016: $18.7 million).

The Group continues to pursue organic growth supplemented by strategic, complementary acquisitions and seeks to build a portfolio of businesses that provide a diverse, sustainable and commercially valuable suite of health, wealth and living services that create community value. Community value involves providing sought after products and services to individual members and customers, and also contributing to broader social purposes such as the social infrastructure challenge.

The Group's operations are conducted through four business platforms: Healthcare; Independent & Assisted Living; Wealth; and Personal Financial Services.

Healthcare provides private health insurance, dental and other healthcare services, such as preventative health and chronic disease management services. Independent & Assisted Living is a provider of retirement communities, aged care facilities, home care and disability services.

The Wealth platform manages investment funds in property, Australian and international equities, fixed interest, investment and superannuation bonds. Through Big Sky Building Society it also provides banking products. Australian Unity Personal Financial Services provides financial planning, finance broking and insurance services, and trust and estate administration services.

Key aspects of the operating, financial and strategic performance of each Group business during the half-year to 31 December 2016 are set out below.

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

A reconciliation between adjusted EBITDA and profit after income tax is disclosed in note 3 to the consolidated financial statements.

Operating and financial review (continued)

Healthcare

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

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

Australian Unity's healthcare business is one of the nation's largest health insurance providers with 239,759 policyholders throughout Australia. Through its wholly owned subsidiary, Remedy Healthcare, the business is one of the largest providers of integrated telephonic and in-home healthcare services in the country.

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

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

Financial performance

Healthcare financial result	**Half-year to 31/12/16 $million**	**Half-year to 31/12/15 $million**	**Variance**
Total segment revenue	**455.8**	426.4	6.9%
Operating expenses	**416.4**	397.5	4.8%
Adjusted EBITDA	**39.4**	28.9	36.3%

The Healthcare business delivered a strong first half year result despite the ongoing challenges that private health insurers have been facing in the past five years.

For the half year ended 31 December 2016 adjusted EBITDA for the Healthcare business was $39.4 million, up $10.5 million or 36 percent compared to the prior corresponding period. This solid result was principally driven by an improved underwriting experience for retail and corporate health insurance and a strong increase in health services earnings.

Healthcare's adjusted EBITDA margin for the half year was 8.6 percent (31 December 2015: 6.8 percent).

Drivers of financial performance
Revenue
Healthcare generated total segment revenue of $455.8 million for the half year ended 31 December 2016, which represents a $29.4 million or 6.9 percent increase compared to the prior corresponding period. The main drivers of this increase in revenue were:

- $25.7 million or 6.2 percent increase in health insurance premium income; and
- $3.7 million or 27.4 percent higher healthcare services revenues compared to the prior corresponding period.

Expenses
Total operating expenses for Healthcare for the half-year were $416.4 million which was $18.9 million or 4.8 percent higher than the prior corresponding period. This increase was primarily due to:

- $15.9 million or 4.1 percent increase in health insurance operating expenses-principally due to increased claims net of risk equalisation, policyholder acquisition costs and staff costs; and
- $3.1 million or 25.8 percent increase in healthcare services expenses attributed to higher business volumes, expenses associated with acquired businesses and investment growth initiatives in Remedy Healthcare.

Operating and financial review (continued)

Total policyholders*	31/12/16	31/12/15	Variance
Retail	**205,506**	201,411	2.0%
Corporate	**34,253**	31,592	8.4%
Total policyholders	**239,759**	233,033	2.9%

* including Overseas Visitor Cover policyholders

Highlights

New product development process
The business has been focused in the previous two years on embedding an innovation process that is designed to develop solutions to affordability in the healthcare system. This process adopts a formal, fast-cycle 'test-and-learn' approach that includes experimenting with new concepts to determine customer demand prior to investing in infrastructure. The process seeks to enhance customer engagement in products and services at the design phase.

Waste in healthcare - empowering consumers
The Healthcare business continued its campaign focused on minimising waste in the healthcare system, and scrutinising procedures and services that are delivered unnecessarily.

A large body of evidence points to numerous instances of out-of-date practices which contribute significantly to waste across the system, as well as exposing patients to often unnecessary risk and avoidable costs. The feedback the business received from policyholders strongly confirmed other external evidence of waste and duplication.

The business will continue to work with members and consumers to encourage people to advocate for their own health and encouraging them to question the necessity, risks and alternatives to recommended treatments.

Healthcare Outlook
While health cost inflation eased in the last 12 months, without major policy reform that effectively addresses the input costs, it is likely health inflation will revert to its long term average, which is well above general inflation.

This recent easing of health cost inflation will see lower increases in premiums across the industry from 1 April 2017, which is positive for policyholders and may see 'switching' levels stabilise in the short term.

While the Federal Health Minister's announcement on prosthesis reform is both necessary and an appropriate first step in improving the affordability of private health insurance, it in itself is not sufficient. If lower premium increases are to be sustained, all root causes of high increases in PHI benefits-above general inflation increases in doctors and hospital charges, ageing, supply induced demand and many other factors-need to be addressed.

Independent & Assisted Living

Overview
Australian Unity Independent & Assisted Living's results for the half-year ended 31 December 2016 reflect continued growth across all four components of the business.

The business recorded total segment revenue of $197.7 million for the half-year to 31 December 2016 (31 December 2015: $64.0 million). This result was largely attributable to the transfer of the Home Care NSW business in February 2016. However, the integration costs associated with the transfer contributed to an overall decrease in adjusted EBITDA to $3.0 million for the half-year to 31 December 2016 compared to $11.8 million in the corresponding period last year.

Retirement Communities
During the half-year under review, village occupancy rose to 97.8 percent which represents an increase of 0.8 percent from 30 June 2016.

A further 61 new home units were delivered across the portfolio, increasing the total portfolio of home units to 2,171 at 31 December 2016 (30 June 2016: 2,110). A further 186 home units are forecast to be delivered in the second half of the year at Peninsula Grange in Mornington, Victoria, Sienna Grange in Port Macquarie, NSW, Rathdowne Place in Carlton, Victoria and Campbell Place in Glen Waverley, Victoria.

Operating and financial review (continued)

Aged Care
Occupancy levels remained very high at 98 percent (609 beds) at Australian Unity's five aged care facilities.

The Campbell Place aged care facility in Glen Waverley, Victoria is scheduled for completion in the second half of the financial year adding a further 102 beds and increasing the number of aged care beds across the portfolio by 17 percent.

Home Care
The existing Home Care business (excluding Home Care NSW) continued to provide significant growth for the Independent & Assisted Living business. Revenue for the half-year was $12.9 million representing an increase of $1.6 million compared to the same period last year. Revenue for the total Home Care business, including Home Care NSW, was $127.4 million.

Service hour delivery continues to be strong across the platform and preparations are well advanced ahead of the Federal Government's Increasing Choice in Home Care reforms that commenced on 27 February 2017.

At 31 December 2016, the transfer of the Home Care NSW business to the Independent & Assisted Living platform was approximately 60 percent complete. This has been a significant undertaking and has required substantial resources to deliver and ensure that the remaining 17,000 clients and 1,700 employees are transferred as effectively as possible in February 2017.

Developments
The half-year to 31 December 2016 saw construction completed of the second stage of the Lifestyle Manor retirement community in Bondi, NSW which is now fully occupied. Construction activity on The Residences at Rathdowne Place in Carlton, Victoria, and Campbell Place is on-track to be completed by 30 June 2017.

The business continued to progress a number of other development projects including Peninsula Grange in Victoria and Sienna Grange and The Governors in NSW. Construction work on the Albert Road development in South Melbourne will commence in the second half of 2017.

Only six completed retirement units remained unsold at 31 December 2016 providing encouraging levels of market support for the businesses new communities.

Independent & Assisted Living Outlook
Independent & Assisted Living seeks to provide a continuum of care to its customers in the form of home care, retirement communities and aged care, built around the concept of ageing in place and supporting older Australians to age in the community of their choosing. The business strives to achieve this vision by continuing to invest in the development of sought-after accommodation and services for our ageing population.

Completing the transfer of Home Care NSW remains a key goal for the remainder of FY17.

Wealth

Overview
Australian Unity's Wealth platform offers a comprehensive range of financial products and services designed to improve the financial wellbeing of customers while connecting communities.

The business offers expertise in fixed interest, and Australian, global and microcap equity investments. This is complemented by an in-house team managing real estate investments, market-leading investment bonds, funeral bonds, and education savings plans and a wide range of banking services.

For the half-year to 31 December 2016, the Wealth business recorded a 12.7 percent increase in total segment revenue to $60.2 million (31 December 2015: $53.4 million). Adjusted EBITDA increased to $8.7 million representing a 17.7 percent increase compared to the previous half-year (31 December 2015: $7.42 million).

Adjusted EBITDA was positively impacted by factors that include: increased marketing expenditure supporting strong revenue growth in the property, investment bonds and banking segments.

Total funds under management, administration and advice within the Wealth business were $9.12 billion at 31 December 2016 (30 June 2016: $9.59 billion).

The Wealth team also manages the investment portfolios of the Australian Unity Group, which achieved a weighted aggregate return of 3.2 percent on the Group's investment assets for the 12 months to 31 December 2016. This result was well above its strategic benchmark of 2.4 percent.

Operating and financial review (continued)

Funds Management
One of the significant market trends impacting investment returns over the past year has been the slowing of the tailwinds that existed for small to mid-cap 'growth style' investing over the course of 2015 and into mid-2016. Investors decisively began to shift their focus in favor of large cap 'value style' investing in the lead up to the November US presidential election. The 2016 calendar year concluded with a more positive economic growth outlook and generally improved earnings forecasts for 2017.

A summary of investment returns for the year ending 31 December 2016 for the flagship joint-venture asset management businesses is as follows:

Asset Manager	Portfolio	Net Return %	Benchmark %	Out/(under) performance %	Benchmark
Acorn	Microcap Trust (wholesale)	12.26	15.67	(3.41)	Acorn Capital/AGSM Microcap Accumulation Index
Platypus	Australian Equities Trust (Wholesale)	(1.87)	11.79	(13.66)	S&P ASX 300 Accumulation Index
Seres	Asian Equities Opportunity Fund	(3.96)	4.46	(8.41)	MSCI ACFM Asia Index
Wingate	Global Equity Fund (Wholesale)	5.33	7.92	(2.59)	MSCI World (ex Aust) $A Net Dividends Reinvested
Altius	Bond Fund	3.28	2.34	0.94	50% Bloomberg AusBond Composite 0+ Year Index + 50% RBA Cash rate

Retail and sophisticated investors have also strongly supported the Wealth platforms asset management businesses with $196.6 million in gross new flows during the half year.

Property
Total funds under management in Australian Unity's Property portfolio increased to $2.30 billion (30 June 2016: $2.21 billion).

In August 2016, Australian Unity was confirmed by the Queensland Government as the preferred tenderer for the $1.1 billion redevelopment of the Herston Quarter health precinct in Brisbane. The project is an important social infrastructure project for Brisbane and Queensland. Significant time and resources were dedicated to preparing for the execution of agreements between Australian Unity and the Queensland Government, with formal contractual close secured on 23 February 2017. Various preliminary works and planning processes are now in train for this major inner city redevelopment.

Australian Unity's Healthcare Property Trust, the largest fund of its kind in Australia, increased funds under management to $1.17 billion (30 June 2016: $1.06 billion) and posted a return of 12.5 percent for the year to 31 December 2016. During the 2016 calendar year, the Trust made a number of property acquisitions and continued work on large-scale and long-term projects for many of the Trust properties that aim to provide mutually beneficial outcomes for patients, hospital operators and investors.

The Retail Property Fund achieved a 22.79 percent return for investors in the year to 31 December 2016. Over the previous year valuations for all of the Fund's properties increased as a result of solid, ongoing property fundamentals and increased demand for quality commercial assets.

In June 2016, unitholders in the Australian Unity Office Fund (ASX: AOF) voted overwhelmingly to list the fund on the Australian Securities Exchange. AOF has outperformed the S&P/ASX 300 A-REIT Index over the last six months and has upgraded its earnings and distributions guidance for the year reflecting Australian Unity's active approach to managing the fund.

The Australian Unity Diversified Property Fund achieved a return of 18.12 percent for the year to 31 December 2016. Over the past 12 months many of the Fund's properties were independently re-valued with strong growth in property values.

In conjunction with the Group's Independent & Assisted Living segment, the Property business successfully raised third party equity to develop a new residential and aged care community on Albert Road in South Melbourne.

Equity support for the Australian Unity Select Mortgage Income Fund continues to grow from financial planning groups, generating strong recurring monthly flows. The lending portfolio grew solidly over the period to $98.9 million as at 31 December 2016.

Investors in Australian Unity's mortgage trusts continue to receive regular payments in line with the decision to wind up the Trusts and return capital to investors. The next payments for both the High Yield Mortgage Trust and the Mortgage Income Trust are scheduled for March 2017.

Operating and financial review (continued)

Life & Super
Australian Unity's investment bonds business continues to be Australia's market leader in investment bonds and funeral bonds, and a leading provider of education investment funds, with $2.11 billion in funds under management and administration as at 31 December 2016 (30 June 2016: $1.99 billion).

The investment bonds business is operated through the wholly owned entity Lifeplan Australia Friendly Society and during the half-year commenced operation under the Australian Unity brand.

During the half-year sales of all products totalled $223.9 million compared to $91.6 million for the previous half-year and Australian Unity remains the clear market leader for investment bond solutions.

Funds under management for education solutions increased by 9.5 percent and surpassed $164 million compared to $149.8 million for the six months to 30 June 2016.

With over $656 million in funeral funds under management and 90,000 clients, Australian Unity has a leading position in the pre-paid funeral market via the specialised business Funeral Plan Management.

The Federation Managed Accounts business reached $347 million in funds under administration during the year (30 June 2016: $290 million).

Following receipt of its Superannuation license in May 2016, Federation Super has $8.3 million in funds under administration attracting an average balance of approximately $300,000.

Banking
Big Sky Building Society continues to focus on delivering on its strategic plan by building and deploying new retail savings products and industry leading digital channels capability.

During the half-year to 31 December 2016, the competitive market conditions continued to grow and adding pressure on interest rates margins. Big Sky felt these impacts through slower lending growth and increased customers refinancing to cheaper lenders.

Big Sky's total on-balance sheet assets grew to $876.8 million as at 31 December 2016 (30 June 2016: $861.6 million).

Wealth Strategy and Outlook
The strategy of Australian Unity's Wealth business is to deliver a broad but specific range of financial solutions, directly or indirectly, to cater to the needs of its clients over progressive life stages.

The Wealth business produced very solid results for the half-year ended 31 December 2016, continuing to improve the efficiency of its operating platform, achieving strong growth in new business in a number of areas, delivering clients very solid investment returns in what remain uncertain and volatile investment markets, and launching a number of new products and technology improvements for the benefit of customers.

Personal Financial Services

Overview
Australian Unity's Personal Financial Services business works with advisers and industry partners to provide professional advice that supports its clients' financial wellbeing. With its partners and advisers, the business provides regular financial guidance and mentoring across most aspects of their clients' financial affairs, giving clients the information they need to make informed choices about their financial arrangements.

During the half-year to 31 December 2016 the business focused considerably on consolidating existing acquisitions and preparing for Australian Unity Trustees Limited (formerly Flinders Australia Limited) to operate as a fully licensed trustee business.

For the half-year to 31 December 2016, total segment revenue decreased by 3.7 percent to $32.2 million (31 December 2015: $33.5 million) largely as a result of a number of practices leaving the now wholly owned Premium Wealth Management business, acquired by Australian Unity in 2014, and the impact of one-off revenue received in the prior comparative period associated with the transition to QBE for personal insurances.

Adjusted EBITDA was $0.93 million for the half-year to 31 December 2016 compared to $1.69 million for the prior year's corresponding period. This result was impacted by investment in the trustee services business and by the decline period on period in the revenue associated with the transition to QBE.

Operating and financial review (continued)

Trustee Services
A focus for the half-year for this business was acquiring an Australian Financial Services Licence (AFSL) which was achieved in February 2017. This is an extremely positive development as it is the first new trustee AFSL issued in many decades and follows years of consolidation in this sector.

Estate planning and trustee type services are increasingly in demand as Australia's population ages and a growing number of Australians and their families are requiring protection, support and certainty through what can be an extremely difficult time. Expansion into this business is directed toward providing an opportunity for middle income Australians to access these vital services with the market currently being dominated by services and products designed for people with high levels of wealth.

Significant work has been undertaken and attendant costs incurred to prepare the business for operating in a fully licenced environment by implementing effective structures and business practices and recruiting staff with the relevant skills. The business also changed its name to Australian Unity Trustees Limited and was formally launched in early February 2017.

Gaining the licence will allow the business to expand its service offering and operate in other states. Estate planning specialist lawyers have been recruited across the country to provide a national estate planning service which will leverage internal and external referral partnerships and will also provide leads to other parts of the business.

Financial advice
The number of advisers decreased marginally to 175 at 31 December 2016 (30 June 2016: 176). However, the recruitment pipeline is strong and adviser numbers are expected to increase in the second half of the year financial year.

The business executed part of its growth strategy with the provision of investment management services via a Separate Managed Accounts (SMA). The use of SMA's provides significant efficiencies to practices during the advice process and provides a revenue stream to the business to address margin pressures.

The business has also leveraged the legislative changes that now require accountants who provide advice in relation to the establishment of Self-Managed Superannuation Funds (SMSF) by offering a limited authority to accountants providing this advice. Limited authorisations were provided to 31 accountants as at 31 December 2016.

Finance and insurance services
Finance broking achieved revenue of $1.3 million for the half-year which is steady with the previous half-year while gross margin improved by 5.5 percent. Gross margin growth was achieved through a restructure of employed finance brokers. Loans under advice increased to $855 million at 31 December 2016 compared to $795 million at 30 June 2016.

The general insurance business transition from Calliden and CGU to QBE has been completed and has resulted in a consolidated insurance offering that delivers improved commercial terms, premium reductions and an improved business partnership. The general insurance broking business has been restructured and new brokers employed with the aim of growing this revenue stream via existing referral networks.

General insurance achieved significant first half operating revenue growth to $1.1 million representing an increase of 31.7 percent compared to the previous half-year largely due to higher broking revenue and improved commercial terms.

Personal Financial Services' Strategy and Outlook
The business continues to be impacted by a range of regulatory reforms, including the Future of Financial Advice reforms; the MySuper reforms the proposed introduction of new Professional Standards for Financial Advisers; the finalisation of the recommendations for the Life Insurance Framework, which will result in remuneration changes and accountants' SMSF licensing reforms.

Against this backdrop the business continues its development into a diversified financial services business designed to serve the growing needs of the community.

The Personal Financial Services business is well placed for growth as a result of gaining the traditional trustee services licence and the opportunity to offer these services to our network of advisers, accountants and members as well as independent and assisted living clients and in particular new Home Care NSW clients.

Matters subsequent to the end of the half-year

On 23 February 2017, the Group and the Queensland Government entered contractual close for the $1.1 billion Herston Quarter project in Brisbane. The Group plans to develop and then take an ongoing role in an integrated health, ageing and research precinct in the Herston Quarter, which will provide Queenslanders with access to leading health, hospital and aged care services. The new project, integrated within the existing Herston Health Precinct, is designed to attract, train and retain the best clinicians, health workers, researchers, academics and students.

The Herston Quarter is adjacent to the Royal Brisbane and Women's Hospital in inner suburban Brisbane. The masterplan for the five hectare site includes a public rehabilitation hospital, a private hospital, residential aged care, retirement living and student accommodation, health research, childcare, a co-working hub and education and training facilities. Over the next few months the Company will work with the Queensland Government to document and finalise the contracts and the masterplan.

The board is not aware of any other matter or circumstance arising since 31 December 2016 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.

Auditor's independence declaration

PricewaterhouseCoopers Australian firm is the external auditor for the 2017 financial year (2016: Ernst & Young Australian firm). A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Rounding of amounts

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

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

South Melbourne
1 March 2017

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Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Peter van Dongen
Partner
PricewaterhouseCoopers

Melbourne
1 March 2017

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

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Australian Unity Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2016

	Notes	Half-year 2016 $'000	2015 $'000
Revenue and other income	4	**901,739**	630,412
Expenses, excluding finance costs	5	**(879,355)**	(600,075)
Finance costs	5	**(10,461)**	(8,851)
Share of net loss of joint ventures		**(1,084)**	(400)
Profit before income tax		**10,839**	21,086
Income tax benefit/(expense)	6	**5,726**	(6,860)
Profit after income tax for the half-year		**16,565**	14,226
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		**1,245**	919
Income tax relating to this item		**(373)**	(278)
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**3,079**	-
Other comprehensive income for the half-year, net of tax		**3,951**	641
Total comprehensive income for the half-year		**20,516**	14,867
Profit for the half-year is attributable to:			
Members of Australian Unity Limited	13	**16,565**	14,226
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		**20,516**	14,867

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 13.

Australian Unity Limited
Consolidated balance sheet
As at 31 December 2016

	Notes	31 December 2016 $'000	30 June 2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**951,181**	916,728
Trade and other receivables	2	**107,316**	90,849
Loans and advances	2, 8	**33,904**	23,634
Financial assets at fair value through profit or loss	9	**1,551,840**	1,554,920
Other financial assets at amortised cost	2	**89,726**	-
Held-to-maturity investments	2	**-**	66,789
Other current assets	2	**40,757**	24,261
Total current assets		**2,774,724**	2,677,181
Non-current assets			
Loans and advances	2, 8	**714,731**	744,828
Financial assets at fair value through profit or loss	9	**27,930**	20,733
Investments in joint ventures		**21,154**	22,736
Property, plant and equipment		**180,910**	177,352
Investment properties	12	**863,297**	820,885
Intangible assets		**358,146**	350,513
Other non-current assets		**10,808**	3,523
Total non-current assets		**2,176,976**	2,140,570
Total assets		**4,951,700**	4,817,751
LIABILITIES			
Current liabilities			
Trade and other payables		**127,870**	107,667
Borrowings	10	**827,837**	813,645
Current tax liabilities		**845**	15,879
Provisions		**128,230**	121,045
Other current liabilities		**827,131**	828,183
Benefit fund policy liabilities		**212,200**	179,610
Total current liabilities		**2,124,113**	2,066,029
Non-current liabilities			
Borrowings	10	**309,619**	318,639
Deferred tax liabilities		**55,122**	61,640
Provisions		**8,279**	9,861
Other non-current liabilities		**1,315**	5,639
Benefit fund policy liabilities		**1,861,638**	1,776,420
Total non-current liabilities		**2,235,973**	2,172,199
Total liabilities		**4,360,086**	4,238,228
Net assets		**591,614**	579,523
EQUITY			
Members' balances		**255,919**	255,919
Reserves	2	**5,290**	3,382
Retained earnings	2	**330,405**	320,222
Equity attributable to members of Australian Unity Limited		**591,614**	579,523
Total equity		**591,614**	579,523

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

Australian Unity Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2016

	Notes	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015		255,919	1,956	285,004	542,879
Profit for the half-year		-	-	14,226	14,226
Other comprehensive income					
- Cash flow hedges		-	641	-	641
Total comprehensive income		-	641	14,226	14,867
Transactions with owners in their capacity as owners:					
Transfers within equity		-	128	(128)	-
		-	128	(128)	-
Balance at 31 December 2015		255,919	2,725	299,102	557,746
Balance at 1 July 2016		**255,919**	**3,382**	**320,222**	**579,523**
Adjustment on adoption of AASB 9 net of tax	2	-	**(2,043)**	**(6,382)**	**(8,425)**
Profit for the half-year		-	-	**16,565**	**16,565**
Other comprehensive income					
- Cash flow hedges		-	**872**	-	**872**
- Post-employment benefits		-	**3,079**	-	**3,079**
Total comprehensive income		-	**1,908**	**10,183**	**12,091**
Balance at 31 December 2016		**255,919**	**5,290**	**330,405**	**591,614**

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

Australian Unity Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Half-year	
	2016	2015
	$'000	$'000
Cash flows from operating activities		
Receipts from customers	**988,177**	749,951
Claims and benefits paid	**(345,847)**	(313,371)
Payments to suppliers and employees	**(684,449)**	(479,467)
Net payments of loans asset	**(7,146)**	(57,035)
Net receipts of deposits liability	**15,166**	69,031
Interest received	**20,353**	19,012
Dividends and distributions received	**3,830**	4,483
Interest and finance charges paid	**(17,942)**	(22,172)
Income tax payments	**(10,286)**	(9,668)
Net cash outflow from operating activities	**(38,144)**	(39,236)
Cash flows from investing activities		
Payments for business combination, net of cash receipt	**(1,752)**	(15,352)
Payments for investments	**(439,873)**	(357,613)
Payments for property, plant and equipment	**(8,740)**	(7,003)
Payments for investment properties	**(35,977)**	(30,699)
Payments for intangible assets	**(12,789)**	(10,913)
Payments for investments in joint ventures	**(5,814)**	(3,989)
Receipts from/(payments for) loans to related entities	**14,400**	(19)
Receipts from investments	**531,900**	371,368
Dividends received from joint ventures	**104**	270
Proceeds from disposal of investment property	**-**	3,370
Net cash inflow/(outflow) from investing activities	**41,459**	(50,580)
Cash flows from financing activities		
Receipts from/(payments of) borrowings	**(10,659)**	179,337
Receipts from refundable lease deposits and resident liabilities	**41,797**	65,653
Net cash inflow from financing activities	**31,138**	244,990
Net increase in cash and cash equivalents	**34,453**	155,174
Cash and cash equivalents at the beginning of the half-year	**916,728**	903,307
Cash and cash equivalents at the end of the half-year	**951,181**	1,058,481

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

Notes to the consolidated financial statements

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Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

1 Accounting policies

(a) Implementation of new and amended accounting standards which are mandatory for the first time

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for those related to the early adoption of AASB 9 *Financial Instruments* as disclosed in note 1(b) below.

The Group has also adopted new and amended accounting standards, as applicable, which have become mandatory for the interim reporting period since its previous financial year as set out below. The application of these standards has no impact to the amounts reported in the Group's financial statements.

AASB	Title
AASB 14	Regulatory Deferral Accounts
AASB 2014-1 (Part D)	Amendments to Australian Accounting Standards
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements [AASB 1, 127 & 128]
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
AASB 2015-5	Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12 & AASB 128]

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified. These reclassifications have no impact on the Group's profit or net assets.

(b) Early adoption of AASB 9 Financial Instruments

The Group has elected to apply AASB 9 *Financial Instruments*, as issued in December 2014, because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. While the accounting policies related to financial liabilities remain unchanged, those related to financial assets and hedging activities have been amended to conform with the requirements of AASB 9. The amended accounting policies are described below and these have been applied in the financial statements for the half year ended 31 December 2016. In accordance with the transitional provisions in AASB 9, comparative figures were not restated. See note 2 for further details on the impact of the changes in accounting policies.

1 Accounting policies (continued)

(b) Early adoption of AASB 9 Financial Instruments (continued)

(i) Investments and other financial assets

Classification
From 1 July 2016, the Group classifies its financial assets into the following measurement categories:

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

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

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

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

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

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

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

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

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

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

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

1 Accounting policies (continued)

(b) Early adoption of AASB 9 Financial Instruments (continued)

- Fair value through profit or loss (FVPL)
  Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net within investment gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the profit or loss using the effective interest rate method.

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

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

(ii) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI. The recognition of impairment depends on whether there has been a significant increase in credit risk. Note 2(b) explains how the company determines whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified ECL approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

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

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

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

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

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

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

1 Accounting policies (continued)

(b) Early adoption of AASB 9 Financial Instruments (continued)

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

The Group has applied the expected credit losses approach under AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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

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

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

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

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

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

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

2 The impacts of AASB 9 adoption

(a) Changes in accounting policies

As disclosed in note 1 above, the Group has elected to early adopt AASB 9 which is applied retrospectively from 1 July 2016. This resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In line with the transitional provision of AASB 9, comparative figures are not restated.

The following summarises the impacts of AASB 9 adoption on the accounting policies and the Group's recognition and measurement of financial assets and liabilities:

(i) Financial assets

The Group classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The following summarises the impacts on the Group's recognition and measurement of financial assets:

- Classification of loans and advances remained unchanged. They continue to be recognised at amortised cost.
- Classification of Financial assets at fair value through profit or loss (FVPL) remain unchanged. They continue to be recognised at FVPL.
- Held to maturity investments category was removed. The investments in term deposits and negotiable certificates of deposit that were previously classified as Held to maturity investments have been assessed as having a business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly these financial assets will continue to be measured at amortised cost. They are now presented as "Other financial assets at amortised cost" within "Other current assets" in the balance sheet.

(ii) Financial liabilities

Classification and measurement of the Group's financial liabilities remained unchanged.

(iii) Changes to impairment of financial assets

The AASB 9 impairment requirements are based on an expected credit loss (ECL) model, replacing the incurred credit loss model under AASB 139. Overall, impairment under AASB 9 could result in earlier recognition of credit losses than under AASB 139. The Group has elected not to restate comparative information and the additional provision incurred from the application of ECL method is recognised in the opening retained earnings at the date of initial application.

The Group has three types of financial assets subject to the requirements of AASB 9 to apply the ECL approach, trade receivables from customers, debt investments at amortised cost and loans provided to customers.

Key changes in the impairment of financial assets and the impact on the financial accounts as at 1 July 2016 are described below.

Trade receivables

For trade receivables, the Group applies the simplified ECL approach which requires the use of the lifetime expected loss provision for all trade receivables. As a result, an additional provision of $645,000 was raised against the retained earnings as at 1 July 2016.

Debt instruments at amortised cost

Debt instruments at amortised cost are considered to be low credit risk as the majority of the investments are held within 12 months with financial institutions that have high credit ratings and there has been no significant increase in credit risk, and thus the impairment provision is determined as 12 months expected credit losses. No adjustment was made to the impairment loss provision as at 1 July 2016.

Loans and advances

For loans and advances, the application of ECL approach described in Note 1(b) advances has resulted in an additional provision totalling to $11,053,000 which was raised against the retained earnings and credit loss reserve as at 1 July 2016.

2 The impacts of AASB 9 adoption (continued)

(a) Changes in accounting policies (continued)

The following table summarises the impacts on classification and measurement of the Group's financial assets as at 1 July 2016:

Original classification under AASB 139	New classification under AASB 9	Notes	Original measurement under AASB 139	New measurement under AASB 9	Carrying amount under AASB 139 $'000	Carrying amount under AASB 9 $'000
Financial assets						
Trade and other receivables	Trade and other receivables		Amortised cost	Amortised cost	90,849	90,204
Loans and advances	Loans and advances	7	Amortised cost	Amortised cost	768,462	757,409
Financial assets at fair value through profit or loss (FVPL)	Financial assets at FVPL	8	FVPL	FVPL	1,575,653	1,575,653
Held to maturity investments*	Other financial assets at amortised cost		Amortised cost	Amortised cost	66,789	66,789

* Investments that were previously classified as held to maturity and accounted for at amortised cost under AASB 139, have been assessed as having a business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly these instruments are classified at amortised cost under the effective interest method. These instruments are now included in 'Other financial assets at amortised cost' on the balance sheet.

2 The impacts of AASB 9 adoption (continued)

(a) Changes in accounting policies (continued)

The following table is a reconciliation of the carrying amount of the impacted accounts in the Group's balance sheet from AASB 139 to AASB 9 as at 1 July 2016:

Accounts	AASB 139 Carrying amount 30 June 2016 $'000	Reclassification $'000	Remeasurement $'000	AASB 9 Carrying amount 1 July 2016 $'000	Retained earnings impact 1 July 2016 $'000
Trade and other receivables					
Opening balance	90,849	-	-	90,849	-
(-) Increase in expected credit losses	-	-	(645)	(645)	(645)
Adjusted balance	**90,849**	**-**	**(645)**	**90,204**	**(645)**
Loans and advances					
Opening balance	768,462	-	-	768,462	-
(-) Increase in expected credit losses	-	-	(11,053)	(11,053)	(11,053)
Adjusted balance	**768,462**	**-**	**(11,053)**	**757,409**	**(11,053)**
Held to maturity investments					
Opening balance	66,789	-	-	66,789	-
(-) Reclassification to other financial assets at amortised cost	-	(66,789)	-	(66,789)	-
Adjusted balance	**66,789**	**(66,789)**	**-**	**-**	**-**
Other current assets - Debt instruments at amortised cost					
Opening balance	-	-	-	-	-
(-) Reclassification from held to maturity investments	-	66,789	-	66,789	-
Adjusted balance	**-**	**66,789**	**-**	**66,789**	**-**
Deferred tax liabilities					
Opening balance	(61,640)	-	-	(61,640)	-
(-) Remeasurement in expected credit losses	-	-	3,273	3,273	3,273
Adjusted balance	**(61,640)**	**-**	**3,273**	**(58,367)**	**3,273**
Reserves					
Opening balance	(3,382)	-	-	(3,382)	-
(-) Remeasurement of the general reserve for credit losses	-	-	2,043	2,043	2,043
Adjusted balance	**(3,382)**	**-**	**2,043**	**(1,339)**	**2,043**
Total changes to Assets, Reserves and Retained earnings	**861,078**	**-**	**(6,382)**	**854,696**	**(6,382)**

2 The impacts of AASB 9 adoption (continued)

(a) Changes in accounting policies (continued)

The following table is a reconciliation of the closing impairment provision in accordance with AASB 139 to the opening impairment provision determined in accordance with AASB 9 as at 1 July 2016 due to re-measurement of impairment using the expected credit loss model.

Impairment provision	AASB 139 Carrying amount 30 June 2016 $'000	Remeasurement $'000	AASB 9 Carrying amount 1 July 2016 $'000
Trade and other receivables	1,680	645	2,325
Loans and advances	901	11,053	11,954
Total	**2,581**	**11,698**	**14,279**

Reconciliation of the closing retained earnings as at 30 June 2016 to the opening retained earnings as at 1 July 2016 is as follows:

Retained earnings	1 July 2016 $'000
Closing retained earnings - 30 June 2016	320,222
Increase in impairment provision for trade receivables, net of tax	(452)
Increase in impairment provision for loan and advances, net of tax	(5,930)
Closing retained earnings - 1 July 2016	**313,840**

(b) Financial risk management – Credit risk

With the adoption of AASB 9, the following disclosures relating to credit risk are provided in addition to the information disclosed in the Group's annual report for the year ended 30 June 2016.

For financial assets originated from 1 July 2016, the credit risk modelling has been amended in line with AASB 9 requirements. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Regardless of the analysis, a significant increase in credit risk is presumed if a debtor or borrower is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within the prescribed days of when they fall due as determined by each business segment.

Trade and other receivables
To assess whether there is a significant increase in credit risk, the Group conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations. As disclosed in note 2(a), a credit loss provision of $645,000 based on a lifetime ECL has been raised against the retained earnings for the balance as at 1 July 2016. The additional provision during the half year ended 31 December 2016 was immaterial.

Loans provided by the building society to customers
The Group's subsidiary, Big Sky Building Society Ltd, provides mortgage and personal loans to customers. The mortgage loans consist of residential housing loans and commercial property loans. The Group is exposed to the risk of loss in relation to these loans due to the failure by customers to meet their obligation in accordance with the agreed terms.

2 The impacts of AASB 9 adoption (continued)

(b) Financial risk management – Credit risk (continued)

In assessing whether there is a significant increase in credit risk, the Group considers historical loss experience and adjust this with the current observable data and reasonable forecast of future economic condition which includes macroeconomic factors. An analysis to estimate the expected credit loss is performed on each portfolio of accounts with shared risk characteristics. As disclosed in note 1(b), the Group applies a three-stage approach to distinguish the categories of loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. For the loans already in place as at 1 July 2016, a credit loss provision of $10,210,000 was raised against the opening retained earnings and credit loss reserve. The additions to credit loss provision during the half-year ended 31 December 2016 was immaterial.

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

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

The advances included an amount that has been assessed to have an increased credit risk due to the significant changes in the value of the collateral. A credit loss provision based on a lifetime ECL of $843,000 was raised against the retained earnings for the balance as at 1 July 2016. This balance was settled and the provision was written off in December 2016.

How numbers are calculated

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

3 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.
Health Insurance	Provision of private health insurance and management of the customer service centre.
Healthcare Services	Provision of dental and other healthcare services, including preventative health and chronic disease management services.
Independent & Assisted Living	Provision of retirement communities, aged care facilities, and home care and disability services.
Personal Financial Services	Provision of financial planning, finance and general broking services, estate planning and trustee services.
Wealth	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Operation of Approved Deposit-taking Institution.

3 Segment information (continued)

(a) Description of segments (continued)

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

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2016 is as follows:

Half-year ended 31 December 2016	Corporate Functions and Eliminations $'000	Health Insurance $'000	Healthcare Services $'000	Independent & Assisted Living $'000	Personal Financial Services $'000	Wealth $'000	Total $'000
Total segment revenue	(8,921)	438,530	17,284	197,675	32,229	60,176	736,973
Inter-segment revenue	5,867	-	(4,579)	(1,288)	-	-	-
Revenue from external customers	(3,054)	438,530	12,705	196,387	32,229	60,176	736,973
Adjusted EBITDA	(16,493)	37,091	2,264	2,951	934	8,732	35,479
Depreciation and amortisation							(14,402)
Interest expense							(13,377)
Investment income							10,081
Impairment of joint venture investments							(6,091)
Income tax benefit							4,875
Profit after income tax							16,565
Share of loss after tax from joint ventures (included in adjusted EBITDA)							(1,084)
Total segment assets include:							
Income producing assets	3,030	364,602	770	21,930	10,858	911,898	1,313,088
Working capital assets	24,276	66,993	3,893	14,113	8,609	33,375	151,259
Non-interest bearing assets	111,681	10,323	9,622	522,044	60,666	49,726	764,062
Total segment assets	138,987	441,918	14,285	558,087	80,133	994,999	2,228,409
Total segment liabilities include:							
Borrowings and net inter-segment lending	148,984	20,000	1,260	162,678	800	808,821	1,142,543
Working capital liabilities	37,456	213,875	3,577	63,022	6,462	33,598	357,990
Non-interest bearing liabilities	23,308	13,295	602	85,750	10,407	2,900	136,262
Total segment liabilities	209,748	247,170	5,439	311,450	17,669	845,319	1,636,795

3 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the comparative period is as follows:

Half-year ended 31 December 2015	Corporate Functions and Eliminations $'000	Health Insurance $'000	Healthcare Services $'000	Independent & Assisted Living $'000	Personal Financial Services $'000	Wealth $'000	Total $'000
Total segment revenue	(6,834)	412,811	13,565	63,969	33,476	53,378	570,365
Inter-segment revenue	3,479	-	(2,952)	-	(527)	-	-
Revenue from external customers	(3,355)	412,811	10,613	63,969	32,949	53,378	570,365
Adjusted EBITDA	(16,083)	27,232	1,623	11,812	1,693	7,418	33,695
Depreciation and amortisation							(12,649)
Interest expense							(11,841)
Investment income							6,307
Impairment of joint venture investments							(201)
Income tax expense							(1,085)
Profit after income tax							14,226
Share of loss after tax from joint ventures (included in adjusted EBITDA)							(400)
As at 30 June 2016							
Total segment assets include:							
Income producing assets	23,104	392,789	1,023	13,120	4,544	910,267	1,344,847
Working capital assets	17,435	64,354	5,254	12,468	9,859	21,856	131,226
Non-interest bearing assets	117,652	12,014	9,460	512,701	55,425	54,074	761,326
Total segment assets	158,191	469,157	15,737	538,289	69,828	986,197	2,237,399
Total segment liabilities include:							
Borrowings and net inter-segment lending	146,214	20,000	560	174,244	1,600	795,688	1,138,306
Working capital liabilities	55,384	250,686	4,797	40,815	8,714	28,492	388,888
Non-interest bearing liabilities	22,860	12,941	670	81,078	8,912	4,221	130,682
Total segment liabilities	224,458	283,627	6,027	296,137	19,226	828,401	1,657,876

(c) Other segment information

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

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

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.

3 Segment information (continued)

(c) Other segment information (continued)

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

	Half-year	
	2016	2015
	$'000	$'000
Adjusted EBITDA	**35,479**	33,695
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 5)	**(14,460)**	(10,523)
Merger and acquisition expenses	**(58)**	(1,600)
Other	**116**	(526)
	(14,402)	(12,649)
Interest expense		
Finance costs (note 5)	**(10,461)**	(8,851)
Accommodation bond interest reclassification	**(2,886)**	(2,871)
Other	**(30)**	(119)
	(13,377)	(11,841)
Investment income:		
Dividends and distributions (note 4)	**3,830**	4,483
Investment income (note 4)	**6,252**	1,740
Building society investment losses in adjusted EBITDA	**(1)**	84
	10,081	6,307
Impairment loss:		
Impairment of joint venture investments (note 5)	**(6,091)**	(201)
Profit before income tax attributable to members of Australian Unity Limited (note 13)	**11,690**	15,311
Profit before income tax of benefit funds (note 13)	**(851)**	5,775
Profit before income tax	**10,839**	21,086

4 Revenue and other income

	Half-year	
	2016	2015
	$'000	$'000
Commission income	**32,082**	30,427
Healthcare services revenue	**12,370**	10,613
Dividends and distributions	**3,830**	4,483
Fair value gains on investment property	**6,435**	6,891
Health insurance premium revenue	**438,530**	412,808
Interest income of building society	**17,163**	15,973
Investment income	**6,252**	1,740
Management fees revenue	**37,915**	33,114
Rental income	**1,173**	1,447
Independent and assisted living fees and subsidies	**181,918**	52,299
Revenue of benefit funds	**154,131**	54,317
Other income	**9,940**	6,300
	901,739	630,412

5 Expenses

	Half-year	
	2016	2015
	$'000	$'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	**2,004**	1,417
Commission expense	**31,568**	28,191
Communication costs	**4,308**	2,594
Computer and equipment costs	**7,161**	8,797
Depreciation and amortisation expense	**14,460**	10,523
Employee benefits expense	**223,326**	102,037
Expenses in relation to benefit funds	**154,982**	48,542
Financial and insurance costs	**2,932**	1,542
Fund manager and administration fees	**10,274**	9,832
Health insurance claims expense	**362,216**	354,901
Health insurance claims recoveries - Net Risk Equalisation Trust Fund	**(16,654)**	(19,196)
Impairment of joint venture investments*	**6,091**	201
Interest expense of building society	**8,160**	7,327
Legal and professional fees	**15,794**	8,562
Marketing expenses	**6,733**	5,113
Occupancy costs	**12,984**	7,144
Other direct expenses	**13,011**	9,633
Other expenses	**20,005**	12,915
	879,355	600,075

* The impairment of joint venture investments for the half year ended 31 December 2016 was mainly related to the Group's decision to exit from the Seres Asset Management joint venture.

Profit before income tax includes the following specific expenses:

Depreciation and amortisation		
Depreciation of property, plant and equipment	**5,182**	3,860
Amortisation of intangible assets	**9,278**	6,663
	14,460	10,523
Finance costs		
Interest and finance charges	**10,611**	9,597
Amount capitalised	**(150)**	(746)
Finance costs expensed	**10,461**	8,851

6 Income tax

The income tax result for the six months to 31 December 2016 reflects a non-temporary difference for the purpose of tax accounting arising from elements of the Group's retirement community business reporting loan amounts received from village residents as being non assessable to income tax. This treatment has been confirmed by the Australian Taxation Office via a private binding ruling.

Financial assets and liabilities

7 Financial assets - Cash and cash equivalents

	31 December 2016 $'000	30 June 2016 $'000
Cash at bank and on hand	**84**	83
Bank balances	**43,335**	36,464
Deposits at call	**907,762**	880,181
	951,181	916,728

(a) Deposits at call

Deposits at call include $677,581 (2016: $686,671,000) held in the Australian Unity Wholesale Cash Fund.

(b) Parent Entity's accounts

The balance of cash and cash equivalents as at 31 December 2016 included the Parent Entity's accounts totalling $4,704,000 (2016: $28,452,000).

8 Financial assets - Loans and advances

	31 December 2016 $'000	30 June 2016 $'000
Current		
Mortgage loans	**16,799**	17,288
Personal loans	**7,069**	7,247
Provision for impairment	**(6,942)**	(901)
Loans to related entities	**16,978**	-
Total - current	**33,904**	23,634
Non-current		
Mortgage loans	**711,510**	699,573
Personal loans	**4,684**	9,942
Provision for impairment	**(3,878)**	-
Loans to related entities	**-**	31,346
Advances	**2,415**	3,967
Total - non-current	**714,731**	744,828
Total loans and advances	**748,635**	768,462

(a) Mortgage loans

The mortgage loans are receivable by a controlled entity and by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 8 December 2046 and earn interest at annual interest rates between 3.61% and 6.51% (2016: between 3.71% and 6.51%).

8 Financial assets - Loans and advances (continued)

(b) Personal loans

The personal loans mature at various dates up to 4 January 2025 and earn interest at annual rates between 5.65% and 13.58% (2016: between 5.06% and 13.58%).

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans provided by the building society. The increase in the amount of provision was mainly due to the adoption of AASB 9 expected credit loss model which resulted in additional provision totalling to $10,210,000 for the loans already in place as at 1 July 2016. Refer to note 2 (b) for further information.

(d) Loans to related entities

The current and non-current loans to related entities were made for the purpose of the development of retirement villages under joint development arrangements. 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 $11,010,000 (30 June 2016: $21,999,000) which accrue interest on a monthly basis at an annual fixed rate of 12% (30 June 2016: 12%) and fixed rate loans of $5,968,000 (30 June 2016: $9,347,000) which accrue interest on a monthly basis at an annual fixed rate of 15% (30 June 2016: 15%). As the development has been completed and the retirement villages are occupied, these loans will be settled within 12 months.

(e) Past due but not impaired

At 31 December 2016, the current portion of loans and advances that were past due but not impaired amounted to $563,000 (30 June 2016: $632,000), while the non-current portion amounted to $18,831,000 (30 June 2016: $22,893,000). These relate to a number of borrowers from whom there is no recent history of default.

(f) Fair value

The fair value of current and non-current loans and advances are provided in note 11.

9 Financial assets at fair value through profit or loss

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

	31 December 2016 $'000	30 June 2016 $'000
Securities held by benefit funds	**1,398,616**	1,383,612
Securities held in funds managed by subsidiaries and related entities	**181,154**	192,041
	1,579,770	1,575,653

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

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

	31 December 2016 $'000	30 June 2016 $'000
Equities	**929,514**	894,853
Fixed interest and other debt securities	**397,295**	419,411
Mortgage trusts	**11,260**	7,159
Property syndicates and trusts	**60,547**	62,189
	1,398,616	1,383,612

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

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

	31 December 2016 $'000	30 June 2016 $'000
Equities	**51,271**	49,013
Fixed interest and other debt securities	**90,428**	92,157
Mortgage trusts	**10,037**	11,287
Property syndicates and trusts	**29,418**	39,584
	181,154	192,041

(c) Current and non-current split

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

	31 December 2016 $'000	30 June 2016 $'000
Current	**1,551,840**	1,554,920
Non-current	**27,930**	20,733
	1,579,770	1,575,653

10 Financial liabilities - Borrowings

	31 December 2016 $'000	30 June 2016 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**82,543**	77,710
Retirement Village Investments Notes	**36,725**	18,642
	119,268	96,352
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**269**	4,411
Unsecured interest bearing liabilities		
Call deposits	**330,637**	297,687
Term deposits	**372,563**	401,574
Development finance loans	**-**	8,521
Loan payable to related entity	**5,100**	5,100
	708,300	712,882
Total current borrowings	**827,837**	813,645

10 Financial liabilities - Borrowings (continued)

	31 December 2016 $'000	30 June 2016 $'000
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	**14,871**	33,253
Unsecured interest bearing liabilities		
Australian Unity Bonds - at cost	**250,000**	250,000
Valuation at amortised cost	**(5,361)**	(6,026)
Australian Unity Bonds - at amortised cost	**244,639**	243,974
Development finance loans	**2,303**	-
Subordinated capital notes	**30,000**	30,000
Term deposits	**17,806**	11,412
Total unsecured non-current borrowings	**294,748**	285,386
Total non-current borrowings	**309,619**	318,639
Total borrowings	**1,137,456**	1,132,284

(a) Australian Unity Bonds

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

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

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

Under the terms of the bonds, Australian Unity Limited is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by cash and cash equivalents of the Company. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Australian Unity Bonds. As at 31 December 2016, the Australian Unity Bonds Covenant Gearing Ratio was 40.4% (30 June 2016: 39.7%).

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

(b) Development finance loans

The 2016 balance of development finance loans represented bank loan facilities for the development of retirement village in Mornington (Peninsula Grange).

10 Financial liabilities - Borrowings (continued)

(c) Retirement Village Investment Notes (RVIN)

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

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

During the half year period, the Group repaid $4,441,000 of maturing RVIN. The Group also extended the term of the maturing RVIN amounting to $1,288,000 for a two-year period with an option for the Group to repurchase the notes and make an early repayment in full before the maturity date. The extended RVIN bears a lower interest rate.

As at 31 December 2016, the total RVIN on issue of $51,882,000 (30 June 2016: $56,306,000) comprised $51,613,000 interest bearing liabilities and $269,000 non-interest bearing liabilities. Subsequent to the reporting period, the $269,000 non-interest bearing RVIN were repaid in accordance with the terms of the relevant prospectus.

11 Fair value measurements

(a) Recognised fair value measurements

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

- Financial assets at fair value through profit or loss
- Derivative financial instruments
- Investment properties
- Land and buildings
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2016.

(i) Fair value hierarchy

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

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

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

(i) Fair value hierarchy (continued)

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2016 and 30 June 2016 on a recurring basis:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equities	3,140	977,646	-	980,786
Fixed interest and other debt securities	-	487,722	-	487,722
Mortgage trusts	-	21,297	-	21,297
Property syndicates and trusts	11,643	78,322	-	89,965
Other financial assets	-	-	7,045	7,045
Total financial assets	14,783	1,564,987	7,045	1,586,815
Non-financial assets				
Investment properties	-	-	863,297	863,297
Land and buildings	-	-	155,067	155,067
Total non-financial assets	-	-	1,018,364	1,018,364
Financial liabilities				
Interest rate swaps	-	357	-	357
Life investment contract policy liabilities	-	914,791	-	914,791
Total financial liabilities	-	915,148	-	915,148

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2016				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equities	-	943,866	-	943,866
Fixed interest and other debt securities	-	511,568	-	511,568
Mortgage trusts	-	18,446	-	18,446
Property syndicates and trusts	13,845	87,928	-	101,773
Other financial assets	-	-	332	332
Total financial assets	13,845	1,561,808	332	1,575,985
Non-financial assets				
Investment properties	-	-	820,655	820,655
Land and buildings	-	-	155,590	155,590
Total non-financial assets	-	-	976,245	976,245
Financial liabilities				
Interest rate swaps	-	1,602	-	1,602
Life investment contract policy liabilities	-	858,016	-	858,016
Total financial liabilities	-	859,618	-	859,618

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

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 for fair value measurements during the financial period.

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

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

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

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

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

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

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

Land and buildings
The Group engages accredited independent valuers to obtain an independent valuation for its land and buildings at least every three years. The most recent valuations were done in 2015 by m3 property strategists and in 2016 by CB Richard Ellis (V) Pty Ltd. Fair value is determined using the capitalisation approach, discounted cash flows and direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group. The independent valuations support the Group's carrying value as at 31 December 2016. All of the resulting fair value estimates are included in level 3 as explained in section (iii) below.

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

The following table presents the changes in level 3 assets for the half-year ended 31 December 2016:

	Other financial assets $'000	Investment properties $'000	Land and buildings $'000	Total $'000
Opening balance 1 July 2016	332	820,885	155,590	976,807
Additions	6,750	35,977	1,882	44,609
Transfers	-	-	-	-
Disposals	-	-	-	-
Depreciation	-	-	(2,405)	(2,405)
Gains/(losses) recognised in other income*	(37)	6,435	-	6,398
Closing balance 31 December 2016	7,045	863,297	155,067	1,025,409
*Included in the gains recognised in other income:				
Unrealised gains recognised in the profit or loss attributable to assets held at the end of the financial year	(37)	(6,434)	-	(6,471)

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

Description	Fair value at 31 December 2016 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	863,297	Discount rate	10.0% - 14.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -$9.9 million/+$12.2 million (2016: -$8.7 million/+$11.3 million).
		Property growth rate	0.0% - 4.0%	Increase/decrease in property growth rate by +/- 50 basis points change the fair value by +$18.3 million/ -$16.7 million (2016: +$16.2 million/ -$14.8 million).
		Average length of residents' stay	4-7 years for serviced apartment, 9-14 years for independent living unit	The higher the average length of stay, the lower the fair value.
Land and buildings	155,067	Discount rate	8.25% - 16.3%	The higher the discount rate, the lower the fair value
		Terminal yield	7.4% - 7.6%	The higher the terminal yield, the lower the fair value
		Capitalisation rate	7.5% - 14.0%	The higher the capitalisation rate, the lower the fair value
		Rental growth rate	3.3% - 3.4%	The higher the growth rate, the higher the fair value

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

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

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

(b) Disclosed fair values

The Group also has a number of financial instruments which are measured at amortised cost. The financial instruments that have different fair value as at the end of the reporting period are as follows:

	31 December 2016		30 June 2016	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**717,432**	**717,841**	716,861	717,412
Advances	**2,415**	**2,415**	3,967	3,659
	719,847	**720,256**	720,828	721,071
Current and non-current liabilities				
Australian Unity Bonds	**244,639**	**263,250**	243,974	262,500
Development finance loans	**2,303**	**2,223**	8,521	8,271
Retirement Village Investment Notes	**51,865**	**52,191**	56,306	56,677
Subordinated capital notes	**30,000**	**29,745**	30,000	29,942
Term deposits	**390,369**	**390,056**	412,986	412,807
	719,176	**737,465**	751,787	770,197

The fair values of loans, advances and borrowings disclosed above are estimated by discounting the future contractual cash flows at the current applicable market interest rate. These assets and liabilities are categorised under level 3 in the fair value hierarchy.

Non-financial assets

12 Non-financial assets - Investment properties

Investment properties consist of the Group's interests in retirement village independent living units, development sites and other non-owner occupied property as specified below. A number of the retirement village development sites are intended to be sold upon completion and the required occupancy targets being met.

	31 December 2016 $'000	30 June 2016 $'000
Retirement village independent living units	**526,755**	501,048
Retirement village property funds	**75,172**	72,841
Development sites (including development sites intended to be sold)	**261,370**	242,382
Non-owner occupied property	**-**	4,614
	863,297	820,885

(a) Movements of investment properties

	31 December 2016 $'000	30 June 2016 $'000
At fair value		
Balance at the beginning of the financial period	**820,885**	745,194
Additions	**35,977**	65,469
Transfers to property, plant and equipment	**-**	(4,546)
Disposals	**-**	(3,388)
Net fair value movements	**6,435**	18,156
Balance at the end of the financial period	**863,297**	820,885

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

	Half-year 2016 $'000	2015 $'000
Revenue	**25,282**	25,227
Expenses	**(17,224)**	(13,776)
Changes in fair value recognised in profit or loss	**6,435**	6,891
	14,493	18,342

Profit attributable to members of Australian Unity Limited

13 Reconciliation of profit attributable to members of Australian Unity Limited

	Half-year ended 31 December 2016		
	Attributable to members of Australian Unity Limited $'000	**Attributable to benefit fund policyholders $'000**	**Consolidated Profit or Loss $'000**
Revenue and other income	**747,608**	**154,131**	**901,739**
Expenses, excluding finance costs	**(724,373)**	**(154,982)**	**(879,355)**
Finance costs	**(10,461)**	**-**	**(10,461)**
Share of net losses of associates and joint ventures	**(1,084)**	**-**	**(1,084)**
Profit before income tax	**11,690**	**(851)**	**10,839**
Income tax expense	**4,875**	**851**	**5,726**
Profit after income tax for the half-year	**16,565**	**-**	**16,565**

	Half-year ended 31 December 2015		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Revenue and other income	576,095	54,317	630,412
Expenses, excluding finance costs	(551,533)	(48,542)	(600,075)
Finance costs	(8,851)	-	(8,851)
Share of net losses of associates and joint ventures	(400)	-	(400)
Profit before income tax	15,311	5,775	21,086
Income tax expense	(1,085)	(5,775)	(6,860)
Profit after income tax for the half-year	14,226	-	14,226

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not satisfy the recognition criteria.

14 Commitments

Capital commitments

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

	31 December 2016 $'000	30 June 2016 $'000
Payable within one year:		
Investment properties	**2,169**	11,212
Total capital commitments	**2,169**	11,212

15 Contingencies

Contingent liabilities

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

Guarantees

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 31 December 2016, there was $74,000 (30 June 2016: $183,000) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

Bank guarantees
The Group has entered into bank guarantee arrangements totalling $26,888,000 (30 June 2016: $26,561,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

The Group had no other contingent assets or liabilities at 31 December 2016.

16 Events occurring after the reporting period

On 23 February 2017, the Group and the Queensland Government entered contractual close for the $1.1 billion Herston Quarter project in Brisbane. The Group plans to develop and then take an ongoing role in an integrated health, ageing and research precinct in the Herston Quarter, which will provide Queenslanders with access to leading health, hospital and aged care services. The new project, integrated within the existing Herston Health Precinct, is designed to attract, train and retain the best clinicians, health workers, researchers, academics and students.

The Herston Quarter is adjacent to the Royal Brisbane and Women's Hospital in inner suburban Brisbane. The masterplan for the five hectare site includes a public rehabilitation hospital, a private hospital, residential aged care, retirement living and student accommodation, health research, childcare, a co-working hub and education and training facilities. Over the next few months the Company will work with the Queensland Government to document and finalise the contracts and the masterplan.

The board is not aware of any other matter or circumstance arising since 31 December 2016 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

17 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2016 and 2015 were as follows:

- Dividends received from joint ventures, $104,310 (2015: $270,138).
- Investment management fees charged by joint ventures, $1,860,390 (2015: $2,301,894).
- Performance fees charged by joint ventures, $546,564 (2015: $1,196,891).
- Commission, director fees and occupancy costs charged to joint ventures, $1,065,000 (2015: $94,771).
- Performance fees charged to joint ventures, $546,564 (2015: $1,167,261).
- Investment income from related entities, $6,252,429 (2015: $1,739,731).
- Net amount of development loans repaid by related entities, $14,400,000 (2015: Loan provided, $19,164).

Balances with related parties as at 31 December 2016 with comparative amounts as at 30 June 2016 were as follows:

- Trade and other receivables from related entities, $5,168,286 (30 June 2016: $14,164).
- Trade and other payables to related entities, $594,787 (30 June 2016: $822,444).
- Loans receivable from related entities, $16,978,010 (30 June 2016: $31,346,140).
- Loan payable to related entity, $5,100,000 (30 June 2016: $5,100,000).
- Wholesale cash fund and financial assets at fair values through profit or loss held in funds managed by subsidiaries and related entities are disclosed in note 9.

(b) Terms and conditions

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 40 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) 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.

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

Peter Promnitz
Chair

Ronan Mead
Group Managing Director & CEO

South Melbourne
1 March 2017

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Independent auditor's review report to the members of Australian Unity Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Unity Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Unity Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Unity Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Peter van Dongen
Partner

Melbourne
1 March 2017