

Governance statement

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

Regulatory Framework

ASX Listing Rules

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

Regulators

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

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

Australian Unity Limited board of directors

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

Board composition and expertise

As at 30 June 2015, there were seven directors on the Australian Unity Limited board, each with specific expertise and experience relevant to the Group's activities. The board comprises a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the Group and its members.

The personal qualities required of Australian Unity's directors are: honesty and integrity; strategic insight; capacity to relevantly question, probe and challenge; ability to inspire and inform; extensive connectivity within the business world; an understanding of contemporary leadership and management strategies and a commitment to both the values of the Group and the highest standards of corporate governance. As well as these values, Australian Unity's directors must also possess particular skills or experience relevant to the business operations of the Group and be 'fit and proper' within the meaning of Australian legislation and regulatory regimes applicable to the Group's business operations. The particular shared skillset that the board seeks to maintain includes the following business-specific and general skills:

Business-specific skills	General skills
Healthcare	Management and human resources
Retirement living services	Financial and accounting acumen
Financial services	Legal, regulatory and public policy
Investment management	Marketing and commercial skills
Insurance	Measured risk-taking

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

Board role and responsibilities

The role of the Australian Unity Limited board is to promote and protect the interests of the Company and its members. It does so by directing strategically and governing soundly the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

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

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

Role of Chairman

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

Meetings of the board

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

Avoidance of conflicts of interests

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

Retirement and re-election of directors

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

Committees

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

The Chairman of Australian Unity is either a member or an ex-officio member of each committee. Each committee is chaired by a non-executive director appointed by the board. Each committee provides regular reports to the board about the activities of the committee. The minutes of the committee are tabled at the following board meeting.

The current key committees established by the board to assist it in the performance of its duties are as follows.



Audit and Compliance Committee

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

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

Risk Committee

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

Investment Committee

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

Human Resources, Remuneration and Nominations Committee

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

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

Remuneration

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

The Remuneration Report (contained in the Directors' Report) sets out the key objectives and principles of the remuneration policy. The Report also outlines the executive remuneration structure, which comprises fixed remuneration and at-risk



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

Audit

External auditor

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

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

Internal audit

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

Risk management

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

As part of the risk management framework, all business units regularly identify, evaluate and develop action plans to manage their business risks, maintain risk registers, which are regularly reviewed and updated not less than quarterly. Higher rated risks are reviewed by the risk committee each quarter in addition to annual risk reviews by the board's risk committee, including existing and emerging risks, associated mitigation strategies and status of implementation.

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

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

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

Compliance

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

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

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

