Annual Report
2017

Australian Unity

Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. More than one million Australians have created a bright future with us.

As a mutual company, we trace our roots back to a group of farsighted individuals who met in Melbourne over 175 years ago. They were determined and optimistic that they might establish an organisation that would provide for their own and their communities' needs—needs unmet by the government of the day.

Today, our purpose remains the same. Australians are now faced with challenges including creating financial security in an increasingly uncertain economic environment, managing increasing rates of chronic disease, and securing a dignified and healthy retirement. Our organisation is shaped to address these and other community challenges.

Our businesses span operations providing healthcare, financial services, and retirement and living services, employing more than 7,500 people across Australia.

CONTENTS

2017 AT A GLANCE

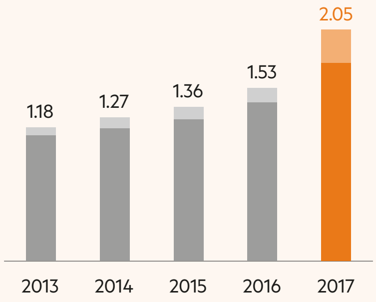
750,000
episodes of care delivered by Remedy Healthcare

90%
increase in investment bond sales to $328.6m

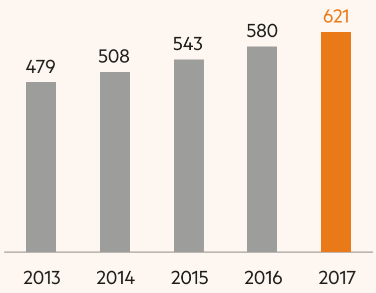
$6.53b
in funds under advice, up 8.4%

4.5m
instances of home and disability care services delivered

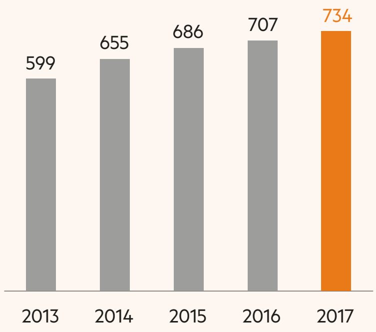
Revenues ($billion)†
$2.05 billion



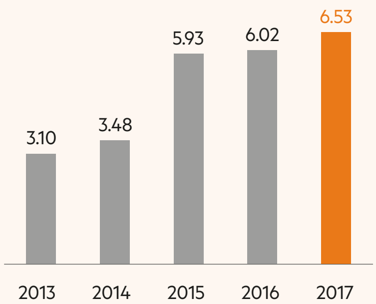
Members' funds ($million)‡
$621 million



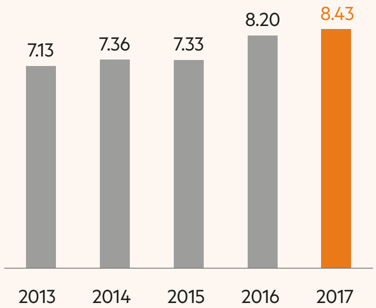
Health gross claims paid ($million)
$734 million



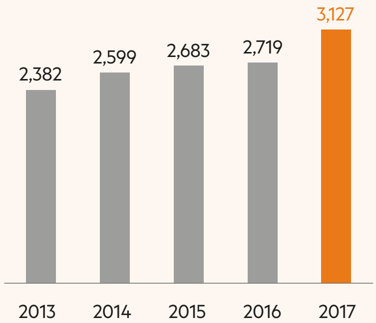
Funds under advice ($billion)#
$6.53 billion



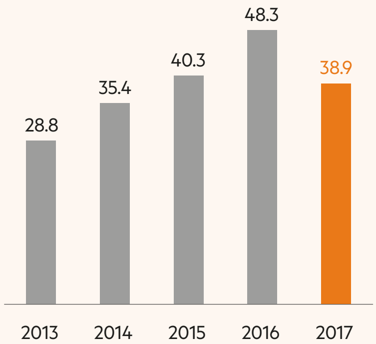
Funds under management ($billion)* $8.43 billion



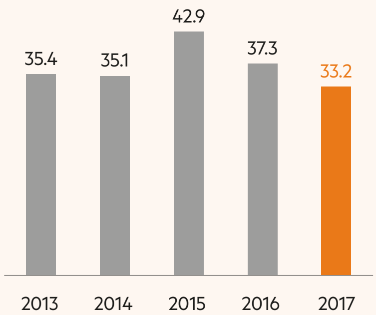
Retirement units and aged care beds 3,127



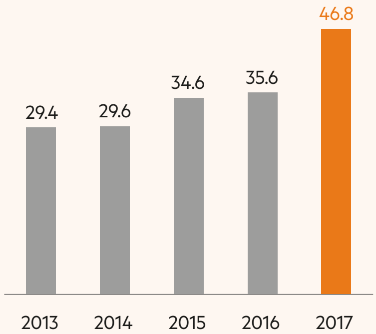
Operating earnings ($million)Σ
$38.9 million



Profit before tax ($million)
$33.2 million



Profit after tax ($million)
$46.8 million



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

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

Funds under advice: the total value of client funds invested through Australian Unity financial planners, and client funds within the Trustee Services business.

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

Σ Operating earnings: profit before tax attributable to members of Australian Unity less investment income, borrowing costs exclusive of accommodation bond interest reclassification and discontinued operations and business acquisition costs.

CHAIR'S REPORT

In the face of rapid demographic, technological and social change we are not driven by the short term expectations of shareholders but rather by the opportunity to respond thoughtfully to the evolving needs of our members and customers.

Dear Members

As I reflect on my first full financial year as Chair of Australian Unity Limited, I have no doubt that the company's mutual corporate structure and 177-year history of providing valued products and services to members and customers have been vital ingredients in shaping the year under review. In a year that has seen a great deal of work done to implement and integrate some of the most significant projects Australian Unity has undertaken, and in so doing broadening our services across the country, our corporate structure and our community history have been important elements in addressing these initiatives.

Our corporate structure is valuably distinguished from shareholder companies in times of change and disruption. In the face of rapid demographic, technological and social change we are not driven by the short term expectations of shareholders but rather by the opportunity to respond thoughtfully to the evolving needs of our members and customers. This orientation allows Australian Unity, where appropriate, to take a longer term view and consider the likely needs of the community over coming years. It is this approach, together with our long history, that helps provide important comfort to those who do business with us, including governments. We reflect on this aspect in relation to some of the major matters addressed during the year under review, including the transfer finalisation of the Home Care NSW business, the Herston Quarter project in Brisbane and securing a trustee services licence.

While much was achieved during the year, much remains to be done to strengthen our organisational capacity to operate at scale in a manner that is consistent with our history and approach. The management team are strongly engaged in this work.

I am pleased to present this annual report and urge you, our members, to take the time to read about the range of activities conducted across the many elements of the organisation.

Financial results

A year ago my report began by describing the transformational growth path on which the company is travelling. In the year under review considerable resources, both financial and human, were deployed to advance a wide range of initiatives and to consolidate new operations into our existing businesses.

Notwithstanding the significant investments made in Group transformation, we report strong growth both in revenues, to $2.05 billion, and profit after tax to $46.8 million. As is to be expected in transformational periods, financial forecasting becomes more complex, but our generally conservative budgeting saw us conclude the year in line with where we had planned to be at this point. I will expand on a number of key initiatives that lie behind our results.

Herston Quarter

In February 2017, Australian Unity signed a series of agreements with the Queensland Government to develop the Herston Quarter, a key part of a health precinct in the inner northern suburbs of Brisbane. Contracts for the $1.1 billion project, which includes a public rehabilitation hospital, a private hospital, aged care and retirement living as well as student and other accommodation, took eight months to negotiate, occupying much of the year in review. With initial construction works now commenced, I commend our management team for the hard work done to secure this opportunity. Not only will this project extend Australian Unity's service profile more deeply into Queensland, it may also serve as a useful template for other governments seeking private sector support for the creation of much-needed social infrastructure.

Home Care NSW

During the period we completed the final stage of the movement of more than 4,000 employees of the Home Care Service of NSW onto the systems of Australian Unity. This transaction resulted in Australian Unity becoming a leading private provider of in-home care services to the people of NSW. The transfer has required a very significant amount of work and this will continue in the coming years. The focus of this initiative has been firmly on improving the care experience for our new customers and the working experience for our new employees. In any major change of this nature there is the potential for disruption to settled patterns of service. At every stage, we have sought to minimise these impacts and will continue a multi-million dollar program of investment in technology and other systems to realise our client service ambitions.

Trustee licence

Australian Unity's range of service offerings to our customers broadened during the period with the granting of a licence to provide traditional trustee company services, the first such licence to be granted in Australia under the licensing regime established by the federal government in 2010. We anticipate using this licence to support clients across Australia in markets that we believe are currently under-served.

Other notable activity

I also mention the notable performance of Australian Unity's investment bonds business during the period. Year-on-year the sales of these bonds, which include education and funeral bonds, grew overall by 90 percent to $328.6 million as financial advisers increasingly endorsed the versatility of these products. We anticipate that investment bonds will have growing relevance to Australians as an investment alternative to superannuation and to address aspects of the complexity of estate planning for contemporary families. I can advise members that Australian Unity has been working in close partnership with the Business Council of Co-operatives and Mutuals to progress with both sides of the federal parliament the position of mutuals in the Australian business environment, particularly regarding improved recognition to support diversity of corporate form and regarding the capacity to raise investment capital.

Risk

Australian Unity operates a range of businesses, as outlined in this annual report, and each is exposed to external risks, both positive and negative. Risks can range from disruptive technology and operational risks through to government policy changes, at either state or federal level. The board will, as it has in the year in review, take a balanced approach to risk across the portfolio of activities. In executing our strategy, which I have previously described as transformational, there will be instances when the board will tolerate a greater amount of risk, albeit subject to prudent management. Such decisions will be made following informed and appropriately robust discussions with management and within the board itself.

Board changes

Stephen Maitland, who has served as a director for 12 years, will be retiring at the conclusion of the 2017 Annual General Meeting. Stephen has served on numerous committees during his tenure, including a long period as Chair of the Audit & Compliance Committee, and has brought significant expertise across a range of relevant areas to the organisation. We were delighted to welcome Lisa Chung to the board from 30 June 2017. Lisa brings a range of desirable skills and experience to the board table, including a strong background in commercial property.

The board renewal and succession process initially set in train five years ago has reached an important milestone. These changes signify the end of the first phase of the board renewal started by long-serving former Chair Alan Castleman and continued by my predecessor, Glenn Barnes. Upon Stephen's retirement and with Lisa's appointment we will have a board which is smaller than in the past but with far greater diversity of knowledge, skills and professional experience gained during executive and non-executive careers (and, for the record, a 50/50 gender balance of non-executive directors as well). We now need to continue to work on the next phase, that is, our processes to ensure that there is regular ongoing renewal of the board while still maintaining and expanding our range of skills and experience to support the continued successful operation and expansion of the organisation.

I would like to thank my fellow directors, and Rohan and his executive and management teams for their consistent hard work and support during the year.

Peter Promnitz
Chair

GROUP MANAGING DIRECTOR'S REPORT

As the nation's social infrastructure challenge escalates, Australian Unity continues to unfold its strategic plans to deliver a valued and commercially sustainable portfolio of businesses and investments in response. In so doing we are seeking to help our members and customers and their communities to thrive. This is the overarching purpose animating the activities of the company.

In my last report to members I outlined this growing social infrastructure challenge. To meet the needs of an Australian population experiencing mass ageing for the first time in history, our nation urgently needs to develop significant additional social infrastructure, both bricks and mortar and human services. The numbers continue to stagger. Around 400 Australians are reaching their 75th birthday every day, a figure set to increase for years hence, as the Baby Boomers reach their twilight years.

Against this demographic backdrop, and with government at all levels struggling to cope, we have sought to develop the company's activities over recent years around the delivery of social infrastructure. Whether it is in human services such as in-home care and disability services, or in private health insurance and financial services, or in the creation of built-form infrastructure such as hospitals and residential aged care—we seek to deliver community value. And, as the Chair has mentioned, we believe our 177-year history in the community and our mutual structure offers some relevant advantages when compared to shareholder-owned companies in the delivery of this infrastructure.

The increasing reach and overall dimensions of the company's operations are evidence of the scale of the ongoing transformation of Australian Unity, consistent with our strategic plans and in response to the challenge and opportunity described.

The Herston Quarter health precinct project in Brisbane exemplifies this transformation. As the Chair noted, construction has begun on the first phase of this $1.1 billion development, agreed with the Queensland Government, which will, in time, deliver a range of both hard and soft social infrastructure to Queenslanders. We also welcomed investment market support for this project which emerged strongly when the Australian Unity Healthcare Property Trust reopened and raised some $180 million for a range of investment opportunities within the Herston Quarter. The raising was fully subscribed within 30 hours.

I reported in my letter to members last year about the significant step we took to broaden our in-home care service offering with the transfer of the NSW Government's Home Care Service, which saw us welcome some 52,000 new clients and more than 4,000 employees into the company. Our efforts to finalise this transfer during the year in review required significant resourcing, including investments of tens of millions of dollars directed toward improving information systems and processes. The provision of digital devices to all homecare workers, who had previously operated within a paper-based rostering system, was another large undertaking.

The year in review also saw the purchase by the Healthcare Property Trust of two additional medical properties in Robina, Queensland, for $30 million and the upgrade of the Robina Private Hospital, again a $30 million project. Construction has also commenced at Albert Road in Melbourne as we develop an aged care, retirement living and community wellbeing precinct on the site of our current head office. More broadly, the performance of our property investment vehicles for investors was strong for the period.

The company also made material investments in establishing the trustee services business. This business is now fully operational and we are already seeing pleasing support emerging for its estate planning, estate administration, court-awarded trust and Native Title services.

Our health insurance operations performed well in a sector that faces challenges. Despite the pressures of input costs and affordability issues, we sought to deliver products with higher relative value and benefits. The retail health fund delivered a lower premium increase than the industry average and the lowest percentage increase to members since 2007.

Financial performance

I am pleased to advise that the company reported a 34.2 percent increase in revenues for the year in review to $2.05 billion. The increase reflected growth across the Group's businesses led by the first full year of revenue following the acquisition of Home Care NSW, together with growth in health insurance and benefit fund revenue. The Group's operating earnings of $38.9 million were down 19.5 percent from the previous corresponding period, due largely to integration costs involved in the Home Care NSW acquisition. Net profit after tax for the year increased 31.7 percent to $46.8 million, with the impact of the Home Care NSW integration costs offset to some degree by a number of non-recurring items.

Policy development and advocacy

The Australian community is rightly concerned at governments' (state and federal) seeming incapacity to cohesively develop and, just as importantly, implement policies that support health, wellbeing and financial security. This is not a criticism of any particular political party or the broader bureaucracy but is perhaps more a reflection on the difficulty of taking anything other than a short-term perspective on policy thinking in the current political climate. I note the difficult rollout of the National Disability Insurance Scheme, with all its human impacts, as but one example of an important policy program under extreme pressure because of design and implementation issues.

In this context, Australian Unity will continue to advocate for thoughtful and practical social and economic policy, ably executed, and where relevant, ably stewarded into the market place. We will take our opportunities to do this in both public and private settings, offering policymakers what we believe to be a reasoned, measured and practically experienced voice in policy considerations across the broad areas in which we operate.

Reconciliation Action Plan and community engagement

Australian Unity's development as an organisation that is valuably engaged with Aboriginal and Torres Strait Islander peoples strengthened with the launch of our first Reconciliation Action Plan. This significant step, which promotes greater engagement in service delivery and procurement, is an important element of our broader engagement with the Aboriginal and Torres Strait Islander community. Our progress towards an inclusive workforce is evidenced by our Home Care NSW business where we are both service provider and employer to some 2,000 clients and 300 employees who identify as being of Aboriginal and/or Torres Strait Islander descent.

The company also joined the Financial Inclusion Action Plan program during the year in review. This program is designed to encourage organisations to better support the economic resilience of individuals and communities at risk of financial hardship. Consistent with this program, Australian Unity will develop relevant aspects of the company's products and services to better support financial wellbeing among vulnerable communities.

Our people

I take this opportunity to restate to the broader Australian Unity community that while our company operates in a competitive commercial environment, as an organisation we seek to ensure that our work every day reflects the values we hold dear — to be bold, warm and honest. Australian Unity's people are encouraged to think big, to have a go, to care about people, to make a difference and to take responsibility. These are more than words on a wall to us. They guide our decisions; big and small.

Like the Chair, I would like to pass on my thanks to Stephen Maitland, a proud Queenslander, on his retirement as a director, and welcome Lisa Chung to the board. And I wish to acknowledge a longstanding and valued member of the executive team, the former Chief Executive Officer of the Independent & Assisted Living business, Derek McMillan, who left the organisation in August after 18 years of executive service. Derek's vision over the years helped shape the modern Australian Unity and his counsel and support has been much valued.

I thank my executive team and all my colleagues across the business for their hard work and effort during the past year. Together we look forward to continuing the transformation of Australian Unity in service of the growing needs of you, our members, and of the community.

Rohan Mead
Group Managing Director & CEO

The increasing reach and overall dimensions of the company's operations are evidence of the scale of the ongoing transformation of Australian Unity, consistent with our strategic plans.

AUSTRALIAN UNITY LIMITED BOARD OF DIRECTORS

Peter Promnitz
Chair
BSc (Hons), AIAA, FAICD

Rohan Mead
Group Managing Director
& Chief Executive Officer

Greg Willcock
BCom, FCPA, FAICD,
MAIM, F Fin

Stephen Maitland
OAM, RFD, BEcon, MBus, LLM, GCURP,
FCPA, FAICD, FGIA, FCIS, SF Fin

Melinda Cilento
BA, BEcon (Hons), MEc

Paul Kirk
BEcon, ACA, RITA, MAICD

Su McCluskey
BCom, FCPA, MAICD

Lisa Chung
LLB, FAIM, FAICD
Appointed 30 June 2017

AUSTRALIAN UNITY GROUP EXECUTIVES

REVENUE UNITS

SUPPORT UNITS

David Bryant
FAICD, F Fin, FAIM
Chief Executive Officer, Wealth
& Chief Investment Officer

Kevin McCoy
BCom, HDip Acc, CA, PMP, GAICD
Chief Financial Officer

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

Jane Betts
PGDip (Bus)
Group Executive,
Human Resources

Steve Davis
CFP, GAICD
Chief Executive Officer,
Personal Financial Services

Tahir Tanveer
M InfoTech, BA (Econ), GAICD
Group Executive,
Business Technology

Derek McMillan
BSc (Hons), DipEd
Chief Executive Officer,
Independent & Assisted Living

Melinda Honig
BEcon, LLB, GAICD
General Counsel,
Company Secretary
& Chief Risk Officer

Matt Walsh
BAppSc, MBA
Group Executive,
Corporate Development (acting)

THE SOCIAL INFRASTRUCTURE CHALLENGE

Australian Unity has for some time been focused on the rapidly multiplying health and financial needs of a national population not only growing, but also ageing and suffering increasing levels of chronic disease. The economic and societal consequences are already upon us, and will only be met by the provision of the requisite 'social infrastructure' to address these needs.

Australian Unity defines social infrastructure as 'the interdependent mix of facilities, places, programs, projects, services and networks that maintain and improve standards of living and quality of life in a community'. The definition applies across a range of sectors, including welfare, education, justice, health and ageing.

Some social infrastructure can be described as 'hard'—built-form projects such as hospitals, residential aged care or community precincts. It can also be 'soft'—including workforce requirements, new business systems and new models of care.

Australian Unity acknowledges the enormity of the national challenge to meet the growing demand for social infrastructure in all its forms, and seeks to make a selective, but valuable, contribution through its business operations in relevant areas.

Artist's impression of the future Herston Quarter health precinct in Brisbane.

Australian Unity's various businesses are not in existence solely to provide a commercial return in the delivery of this social infrastructure. They also aim to provide 'community value'—the broader social impact of our product and service range. Australian Unity is building its capability to measure this 'community value' to support its strategy and appropriately prioritise investment decisions.

Australian Unity has been operating in this manner since 1840, when member funds were first pooled to provide health and financial support in the absence of a social welfare system. In a modernised context, this continues today—whether in the construction of hard social infrastructure such as the Albert Road retirement community project in South Melbourne, or the provision of soft social infrastructure, including in-home and disability services, and ongoing financing of the treatment costs of healthcare.

Australian Unity has commissioned further research on this important area, searching to improve its understanding of the nation's future social infrastructure requirements and potential supply gaps, in order to support thinking on social policy reform and to further inform the direction of the business.

Driving the demand side of the social infrastructure equation is the rate of population ageing and the vast (and increasing) number of Australians living with chronic health issues.

Each day in Australia, 400 people turn 75, Australian Bureau of Statistics data reveal. The population data shows the number of Australians aged 65 and over increasing from 1.3 million, or nine percent of the total population in 1976, to 3.7 million, or 15 percent of the population in 2016. By 2056, it is projected 8.7 million Australians will be aged over 65, or 22 percent of the population.

Alongside this is health-related data from the Australian Institute of Health and Welfare revealing that:

- around half of all Australians have a chronic disease such as arthritis, cardiovascular disease, diabetes or a mental health disorder, and
- one in five Australian adults experienced a common mental disorder in the previous 12 months.

The Treasury (Commonwealth) estimates in the *2015 Intergenerational Report* suggest that on current policy settings real health spending per person, which was $2,900 in 2014-15, is expected to reach $8,200 in 2054-55.

On the supply side, Australian Unity anticipates that tens of billions of dollars in capital funding will be required to meet aged care accommodation requirements over the next two decades. Potential shortfalls of carers, allied health professionals and mental health services also loom. Rural and regional Australia is likely to be particularly disadvantaged.

THE CHALLENGE

Our response: create community value through achieving our business objectives:

ADDRESSING THE CHALLENGE

Australian Unity is well positioned to grow its businesses in response to the growing social infrastructure challenge—and it has significant strategic ambitions to do so.

Australian Unity's corporate form as a mutual allows for a longer term perspective on social infrastructure investment decisions compared to shareholder-listed corporations, which may face the competing interests of customers seeking lower prices and shareholders focused on shorter-term profit maximisation and annual dividend returns.

Australian Unity's business strategy is founded on building community value, which comprises the triple aim of commercial sustainability, value to the individual and a demonstrable contribution to community wellbeing.

Herston Quarter

Australian Unity's Herston Quarter project is a practical example and an important initiative consistent with the company's vision to play its part in the provision of the hard social infrastructure the nation needs.

In February 2017, Australian Unity entered into a series of contracts with the Queensland government after successfully tendering for the development of a $1.1 billion integrated health precinct adjacent to the Royal Brisbane and Women's Hospital in inner metropolitan Brisbane.

When fully realised, Herston Quarter will offer Queenslanders a range of healthcare, aged care and other community services, and there are plans for educational and research facilities within the precinct.

Australian Unity's commitment to the creation of community value—value solely beyond a commercial return—is witnessed through its intention to not simply construct facilities at Herston Quarter, but to operate a number of them once constructed. More than 700 jobs will be created for the construction phase, and hundreds of ongoing jobs will be created once the project is in operation.

Australian Unity will also take an ongoing role in evolving the precinct and its uses over the coming years and decades.

Home Care NSW

Providing social infrastructure and community value extends beyond bricks and mortar. It can also be delivered in the form of 'soft' social infrastructure, such as human services. Australian Unity is providing this form of infrastructure across a number of its business platforms, most recently evidenced in the Home & Disability Services business. The transfer to Australian Unity of Home Care Service of NSW in February 2016, the result of a $114 million transaction with the New South Wales government, means Australian Unity is now one of the nation's largest providers of home care services.

With the complex transition of both care staff and clients into the Australian Unity system fully completed in the financial year under review, Australian Unity now services an additional 52,000 clients through more than 4,000 new employees.

Core services provided by Home & Disability Services include domestic assistance, personal care and respite care for seniors and people with a disability. The service also includes Aboriginal Home Care, with some 3,000 Aboriginal and Torres Strait Islander clients and more than 250 Aboriginal and Torres Strait Islander employees.

Trustee Services

Australian Unity completed the strategic acquisition of estate planning and administration specialists Flinders Australia Limited in 2015.

This business—now converted into a fully licensed trustee business—is already playing an important role with estate planning and trustee-type services increasingly in demand. As Australia's population ages more individuals and families will require protection, support and certainty through what can be an extremely difficult time. Personal circumstances are also becoming increasingly complex, for instance, with blended families and diseases of ageing such as dementia, along with varied and often difficult to understand superannuation positions.

Expansion into this business provides an opportunity to provide broader access to these vital services in a market that is currently dominated by services and products designed for people with high levels of wealth.

Services that support the financial security of individuals and families fit squarely within Australian Unity's definition of social infrastructure, with our fiduciary, trustee and estate services responding to the needs of the community.

IN THE COMMUNITY

Australian Unity believes that enabling people to thrive goes beyond the provision of products and services. The true value of an organisation is measured by its capacity to positively impact the social, emotional and cultural wellbeing of individuals together with their family and community, while maintaining the sustainability of its operations.

In the community, Australian Unity seeks to align its initiatives, commitments and advocacy for public policy change to areas that promote self-reliance and mutual help. These were the foundation stones of Australian Unity's conception 177 years ago. Through its community strategy, Australian Unity is supporting community organisations with a focus on disability, Aboriginal and Torres Strait Islander peoples and financial inclusion. In addition, Australian Unity has a number of sponsorship activities that support community understanding and engagement with wellbeing and they include arrangements with The Wiggles and with the Australian Brandenburg Orchestra.

Australian Unity Foundation

The Australian Unity Foundation has distributed more than $1.7 million to deserving community organisations since its inception in 2006. In 2016, the foundation awarded a total of $107,000 to the Indigenous Marathon Foundation, Foundation for Young Australians, Fighting Chance Australia and the First Nations Foundation. In addition to financial support, Australian Unity employees will have the ability to support these organisations through workplace giving, volunteering and other fundraising initiatives.

The Australian Unity Foundation also supported a 12-month membership for the community-giving platform, Benojo. The platform will better enable employees to support charities of their choice through workplace giving and volunteering, while providing insightful reporting on Australian Unity's community impact.

Reconciliation Action Plan

Launched in December, Australian Unity's Reconciliation Action Plan formalised its ongoing commitment to building strong relationships with Aboriginal and Torres Strait Islander employees, customers and communities. The transfer of Home Care Service of NSW to Australian Unity has provided an opportunity to increase Aboriginal and Torres Strait Islander community engagement across the business through products and services, support for business and economic development, and the growing Aboriginal and Torres Strait Islander workforce.

Financial Inclusion Action Plan

In November, Australian Unity took an important step in relation to financial inclusion and financial resilience by joining a growing community of Australian organisations participating in the Financial Inclusion Action Plan program, led by Good Shepherd Microfinance. In 2017, Australian Unity will be exploring various initiatives to improve access to appropriate and affordable products and services, identifying early-warning indicators of financial vulnerability and methods of appropriate support during times of financial hardship.

70,000
downloads of the 'Brush your teeth with The Wiggles' app

$200,000
spent with Aboriginal and Torres Strait Islander owned businesses through Australian Unity

$107,000
given in Australian Unity Foundation community grants

The Wiggles partnership

Australian Unity continues to develop The Wiggles partnership with the promotion of the education savings bonds at their end of year shows in Melbourne, Sydney, Wollongong, Newcastle, Adelaide and Brisbane. Dorothy the Dinosaur was a major drawcard at the Australian Unity Healthcare stand during the Royal Melbourne Show. The 'Brush your teeth with The Wiggles' app has had over 70,000 downloads and some lucky families were given the opportunity to meet The Wiggles before attending a regional live show.

Australian Brandenburg Orchestra sponsorship

The partnership with the Australian Brandenburg Orchestra is now in its seventh season with thousands of Australian Unity members having enjoyed the sounds of Artistic Director Paul Dyer and his team of musicians during this time. The orchestra is a champion of period music from the sixteenth, seventeenth and eighteenth centuries and the partnership allows for members to experience and appreciate the works of Bach, Vivaldi, Mozart and Zelenka. With an ensemble drawn from Australian Brandenburg Orchestra players, performances were given at a number of Australian Unity retirement communities.

Advocacy

Australian Unity stepped up its advocacy efforts in the year under review as it continued to prosecute the argument that Australia must invest in social infrastructure to support the fast-growing challenge posed by an older population living with more chronic conditions. This included making submissions to Productivity Commission inquiries across a range of issues including human services, data protection and use, and the National Disability Insurance Scheme costs. Numerous discussions with state and federal parliamentarians and public servants took place with regard to health, ageing and disability, and also on the important topic of formal legislative recognition of the mutual corporate form in the *Corporations Act 2001* (Cwlth).

Australia Day

Australian Unity's association with Australia Day runs deep within the organisation's origins and history. Australian Unity continues to honour this heritage with the Great Australia Day Breakfast at Parliament House in Victoria. In 2016, former Minister for Industry and Science, Hon. Ian MacFarlane delivered the keynote speech reflecting on the appropriateness of celebrating Australia Day on a day that is divisive for many Australians. Mr MacFarlane's address was followed by a panel discussion with Kirstie Parker, CEO National Centre of Indigenous Excellence.

Australian Unity, through its commitment to reconciliation in Australia, is supporting the call for a national conversation on the appropriateness of the current date of Australia Day, and the exploration of how celebrations can become more inclusive of our multicultural communities, including our Aboriginal and Torres Strait Islander histories and cultures.

Australian Unity Wellbeing Index

Australians were the happiest they have been this century according to the Australian Unity Wellbeing Index survey conducted during the year under review. The Australian Unity Wellbeing Index hit its highest mark since its inception in 2001, reaching an average Personal Wellbeing Index score of 76.9. The Index, a research partnership between Australian Unity and Deakin University, has measured satisfaction with life over the last 16 years. It looks at a range of markers including satisfaction with health, finances, relationships, safety and connectedness to community.

Galiwinku Fun Run Junior Dash organised by the Indigenous Marathon Foundation.

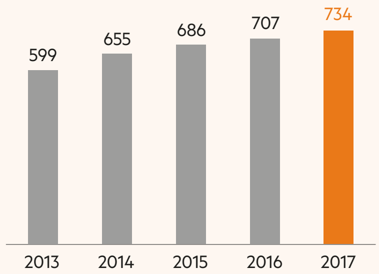
BUSINESS PERFORMANCE

HEALTHCARE

$881.8m
in total segment revenue
(2016: $837.3m)

$74.9m
in adjusted EBITDA^
(2016: $64.9m)

Health gross claims paid ($million) $734 million

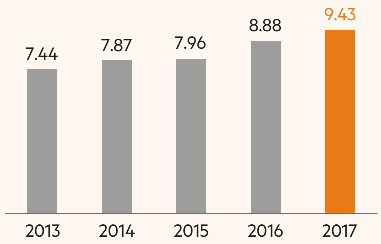


WEALTH

$143.3m
in total segment revenue
(2016: $123.1m)

$30.5m
in adjusted EBITDA^
(2016: $20.3m)

Funds under management, administration and advice ($billion)* $9.43 billion

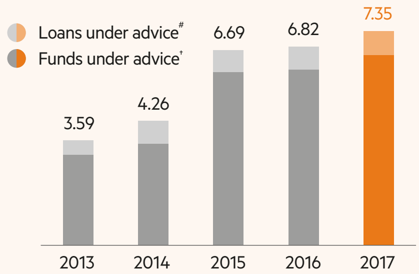


PERSONAL FINANCIAL SERVICES

$65.8m
in total segment revenue
(2016: $65.6m)

$1.9m
in adjusted EBITDA^
(2016: $2.16m)

Funds under advice and loan book combined ($billion) $7.35 billion

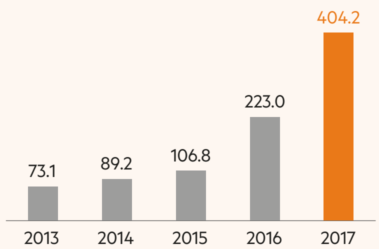


INDEPENDENT & ASSISTED LIVING

$404.2m
in total segment revenue
(2016: $223.0m)

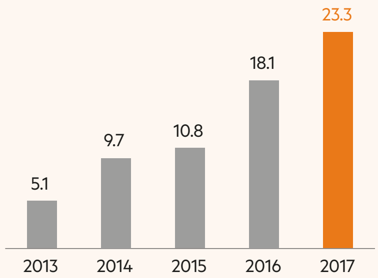
$4.5m
in adjusted EBITDA^
(2016: $24.8m)

Total segment revenue ($million) $404.2 million

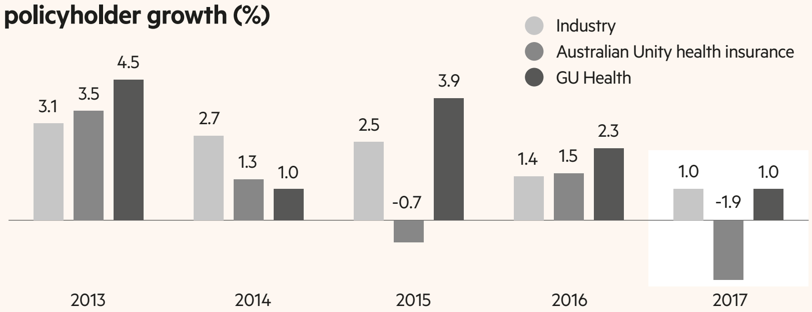


^Adjusted earnings before interest, tax, depreciation and amortisation

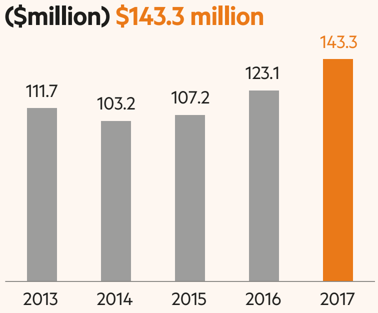
Remedy Healthcare revenue ($million) $23.3 million



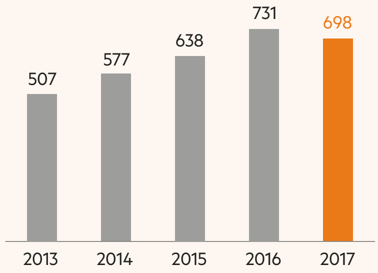
Private health insurance policyholder growth (%)



Total segment revenue ($million) $143.3 million

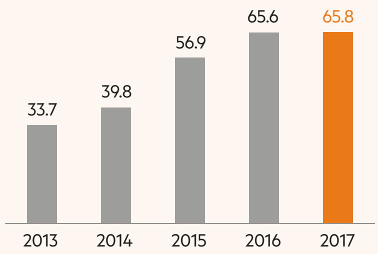


Big Sky loan book ($million) $698 million

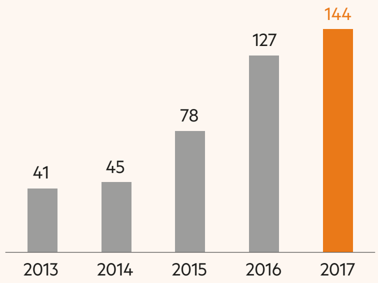


*Funds under management, administration and advice (FUMAA) includes funds under administration and advice in each of the Platypus and Federation Alliance Financial Planning businesses.

Total segment revenue ($million) $65.8 million



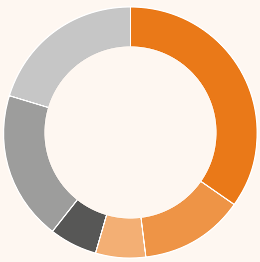
Employees in Personal Financial Services 144



#Loans under advice are shown as the top section of the bar chart (2017: $824m).

†Funds under advice: the total value of client funds invested through Australian Unity financial planners, and client funds within the Trustee Services business. These are shown as the bottom section of the bar chart.

Independent & Assisted Living development pipeline Total $450.2 million



Peninsula Grange	**$217m**
Retirement Village	$156.9m
Aged Care II	$60.1m
Sienna Grange	**$56m**
Retirement Village	$29.1m
Aged Care	$26.9m
Rathdowne Place	**$86.1m**
Retirement Village	$86.1m
Albert Road	**$91.1m**
Retirement Village	$91.1m

HEALTHCARE

Australian Unity offers individuals and families a range of integrated healthcare services and health insurance designed to support their health and wellbeing. The Healthcare business not only offers private health insurance products to suit individual needs, but also provides a corporate health insurance service through GU Health.

Health insurance offers Australians a vital level of comfort in managing their health over time. Healthcare's 235,946 policyholders (a combined total of the retail health fund and GU policyholders) have, depending on the product they hold, coverage towards the costs of hospital accommodation, theatre fees, prostheses and more. Australian Unity health policies also offer extras treatments including dental, optical, physiotherapy, chiropractic, remedial massage and osteopathy.

Australian Unity also provides direct healthcare services through six dental clinics and a range of services through the wholly owned subsidiary, Remedy Healthcare. This includes an integrated telephonic chronic disease management service, a mental health service and in-home healthcare services across the country.

2017 REVIEW

Retail health insurance

Following a strategy to curtail unprofitable products in certain geographies and distribution channels, the number of retail health fund policyholders (including overseas visitor cover policyholders) decreased by 1.9 percent to 201,516 at 30 June 2017 (2016: 205,476).

The retail fund's average premium rise of 4.5 percent for 2017 was below the weighted average of all private health insurers of 4.8 percent. Not since 2007, when average premiums rose by 3.8 percent, has Australian Unity's annual increase been as low.

The business has also focused on embedding an innovation process designed to develop solutions to affordability in the healthcare system. This process adopts a 'test-and-learn' approach that includes experimenting with new concepts to determine customer demand and enhance customer engagement in products and services at the design phase, prior to investing in infrastructure.

GU Health

GU Health, Australian Unity's corporate health insurance provider, is the only established fund in Australia that caters exclusively to the corporate market. In the challenging health insurance market, GU Health increased its policyholders by 1.0 percent to 34,430 at 30 June 2017 (2016: 34,082).

GU Health continued to evolve its proposition of being a valued partner for its corporate clients. The business maintained its approach to tailored and expert health solutions, and made a significant investment in new product development initiatives.

GU Health has been able to leverage its strong presence in the information technology (IT) sector. The IT sector remains a significant source of growth for the fund, and during the year it secured a key global IT client.

Remedy Healthcare

Australian Unity's evidence-based chronic disease and preventative healthcare business, Remedy Healthcare, delivers on Australian Unity's social purpose to provide community value.

Remedy Healthcare maintained its strong growth trajectory and continued to diversify its customer portfolio and revenue sources throughout the year. Delivering 750,000 episodes of care during the year, the business now has equal revenue representation across its health coaching, aged care, allied health and home healthcare operations. Digital health continued to be a focus for the Remedy Healthcare business as it commissioned a number of health coaching projects involving medical device integration for diabetes management, health smart phone app creation and activity monitoring.

The MindStep® depression and anxiety coaching program continued to achieve significant results. Evaluation of the program by Flinders University showed recovery rates of 55 percent, with 75 percent of people experiencing a clinically significant improvement in their symptoms. Furthermore, economic evaluation showed a hospitalisation claim saving of $7,800 per participant through reduced length of stay, equating approximately to a $3 million reduction in claims paid for Australian Unity's retail health insurer in its first full year of operation.

Remedy Healthcare continued to expand its range of services in Queensland and South Australia to include nursing, physio, occupational therapy, podiatry and dietetics. In Victoria and New South Wales, the business also continued to incorporate capabilities such as health coaching, mental health services and community based healthcare into aged care settings—one of the first aged care allied health providers to do so.

Dental

During the year under review, Australian Unity operated six dental clinics located in the Melbourne CBD, South Melbourne, Box Hill, Rowville, Hughesdale and Moonee Ponds in Victoria. The Moonee Ponds clinic opened in August 2016.

There were more than 58,000 patient visits to an Australian Unity dental clinic during the year under review.

4.5%
average increase in **retail health insurance** premiums—lowest rise in a decade and lower than industry average

58,113
patients visited an Australian Unity **dental** clinic

$3m
in claims savings due to **Remedy Healthcare's** MindStep® program

5.3%
increase in total segment revenue

PROGRESS AND PRIORITIES

What we achieved

- Australian Unity negotiated its lowest premium rise in a decade with the federal government. This was against a backdrop of very low wages growth, increasing consumer concerns about the affordability of private health insurance and health costs rising faster than the overall inflation rate.
- Greater emphasis on preventative health and hospital substitution programs to reduce waste in healthcare (including expensive hospitalisations) by shifting care to more appropriate and lower cost settings outside of the hospital.
- A 55 percent recovery rate in Remedy Healthcare's MindStep® program resulting in $3 million in claims savings for Australian Unity's retail health insurer in its first full year of operation. Recovery rates are measured using the PHQ-9 and GAD-7 clinical assessment scores.

Where we were challenged

- The PHI industry growth rate reduced which created greater competition for a smaller share of new consumers, resulting in higher acquisition costs.
- The pressure on premium affordability is being exacerbated by a substantial rise in utilisation of health products and services. This means that there is more care at a greater cost per care episode, much of which is unrelated to population ageing.

In the coming year we plan to

- Continue to expand the range and geographic reach of Remedy Healthcare's programs.
- Continue to explore new value propositions and communities for retail private health insurance leveraging the strategic assets of the Australian Unity group.
- Leverage the investment in new product development in GU Health.

For more details on Healthcare's 2017 results, see the Operating and Financial Review on page 39

WEALTH

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. Its expertise in property, particularly 'hard' social infrastructure assets such as healthcare, retirement communities and aged care, combined with long experience in sourcing funds in equity and debt capital markets, means it is well placed to play a meaningful role in addressing Australia's social infrastructure challenge.

The Wealth platform also offers customers expertise in cash, fixed interest and Australian shares, market-leading investment bonds, funeral bonds, education savings plans and a wide range of personal banking services through Big Sky.

2017 REVIEW

Investments

The Investments business provides investment management products and managed accounts for cash, fixed interest, listed real estate and Australian equities, as well as diversified (multi-sector) investment options.

During the year, the business focused on its domestic investment capabilities and changed its ownership arrangements in a number of its joint ventures. Altius Asset Management became a wholly-owned subsidiary, with its key investment employees transferring to Australian Unity where they now lead Wealth's fixed interest and cash capabilities. Altius Sustainable Bond Fund returned 1.3 percent and Altius Bond Fund achieved a return of 1.5 percent in the year under review.

Platypus Asset Management, a true-to-label growth manager, has a long history of outperforming the Australian equities market. During the year, Platypus Australian Equities Trust (Wholesale) achieved strong returns for its investors at 9.0 percent and Platypus Systematic Growth Fund returned 5.4 percent.

The performance of the listed Acorn Microcap Trust over the past year returned -0.6 percent. The Australian Unity Wholesale Cash Fund returned 2.2 percent.

With a focus on domestic capabilities, Australian Unity's Wealth platform no longer has a direct ownership interest in Seres Asset Management or Wingate Asset Management, although it continues to utilise the investment capabilities of both businesses as part of its international equities investment arrangements. Wingate Global Equity Fund (Wholesale) returned 10.3 percent in 2017 and the Seres Asian Equities Opportunities Fund was wound up in December 2016.

Property

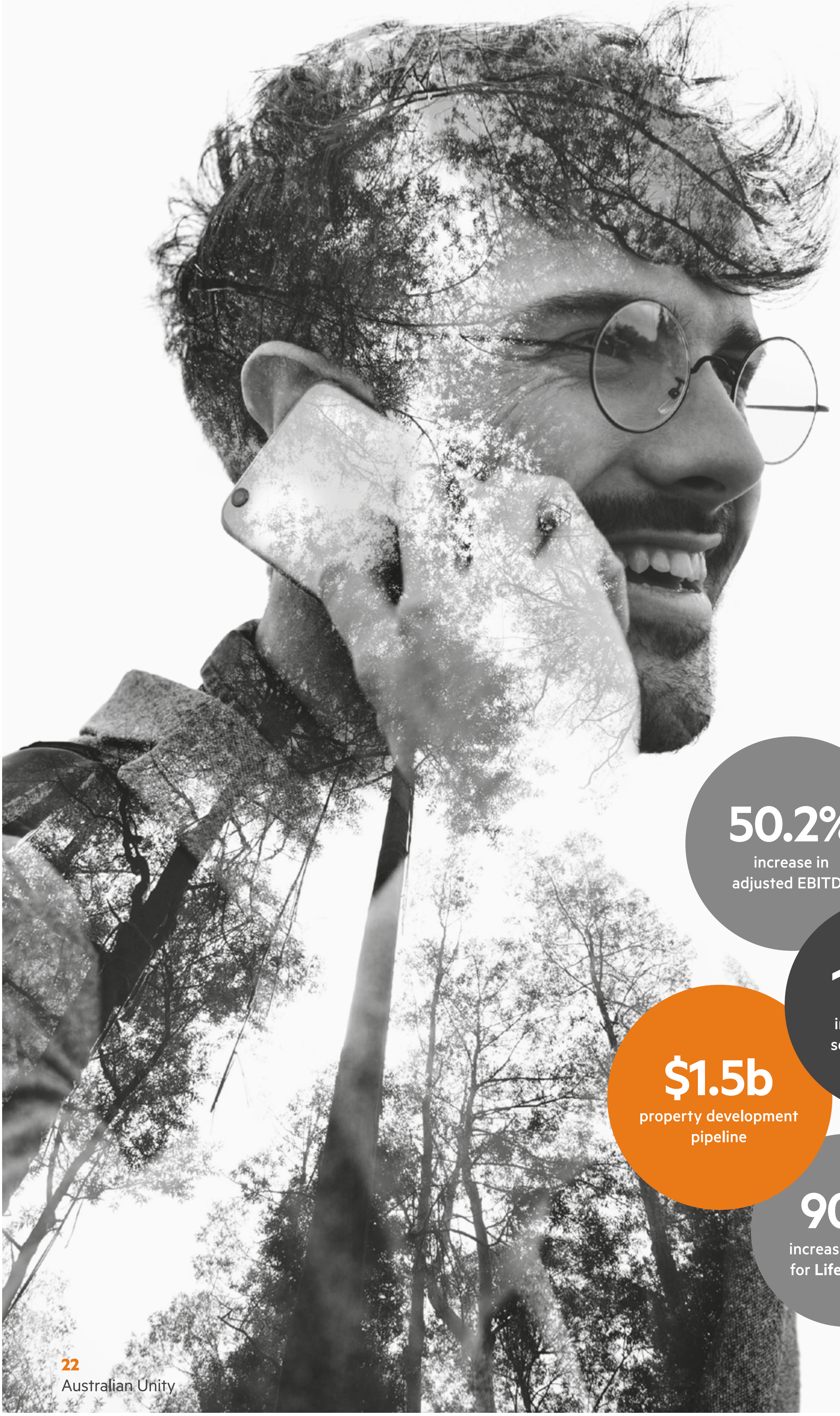
The Property business attracts both individual and institutional investors, and invests in social infrastructure such as aged care facilities and hospitals as well as commercial property, retirement community development and mortgage lending.

For example, in February 2017 Australian Unity entered into a series of agreements for the development of the $1.1 billion Herston Quarter health precinct in Brisbane. This project will ultimately provide Queenslanders with leading health, hospital and aged care services as well as international standard research and education facilities.

Total funds under management in Australian Unity's property portfolio increased to $2.44 billion as at 30 June 2017 (2016: $2.21 billion). In addition, it has now established a multi-year pipeline of property development opportunities of $1.5 billion.

Other notable achievements are listed as follows:

- The Healthcare Property Trust is the largest fund of its kind in Australia. It increased funds under management from $1.06 billion to $1.25 billion as at 30 June 2017 and posted a return of 14 percent for the year. The Trust purchased a number of properties and continued to work on large-scale, long-term projects, including an agreement to develop a specialist hospital within the Herston Quarter.
- The Retail Property Fund achieved a 32.9 percent return for investors in the year to 30 June 2017 compared to 15.3 percent in 2016. 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. Subsequently, the AOF achieved a return of 12.6 percent and outperformed S&P/ASX 300 A-REIT Accumulation Index by 18.3 percentage points.
- The Australian Unity Diversified Property Fund achieved a return of 17.6 percent for the year reflecting our team's active management and leasing approach, which resulted in solid growth in property values.
- In conjunction with the Group's Independent & Assisted Living business, the Property business also successfully raised equity to develop a new residential and aged care community on Albert Road in South Melbourne, Victoria; at Sienna Grange in Port Macquarie, NSW; and also at Peninsula Grange in Mornington, Victoria.
- Support for the Australian Unity Select Mortgage Income Fund continues to grow from financial planning groups, generating strong recurring monthly flows during the year. The lending portfolio grew solidly over the period to $117 million at 30 June 2017 (2016: $87 million).
- Australian Unity's older pooled mortgage trusts were wound up in March 2017 and investors received their final payment in early April 2017.



50.2%
increase in adjusted EBITDA

16.4%
increase in total segment revenue

$1.5b
property development pipeline

90%
increase in sales for Life & Super

Life & Super

Australian Unity's investment bonds business continues to be Australia's market leader in investment and funeral bonds and a leading provider of education investment funds. Funds under management and administration increased to $2.14 billion from $1.99 billion in 2016.

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

During the year, sales totalled $328.6 million (2016: $173.6 million), an increase of 90 percent on the previous period. The Lifeplan Investment Bond was rated 'Highly Recommended' by Zenith Investment Partners, and the business is positioned well to capitalise on the caps to superannuation.

Funds under management for education solutions increased by 16.6 percent and surpassed $174.6 million compared to $149.8 million for the six months to 30 June 2016. Australian Unity has a leading position in the pre-paid funeral market, with more than $628 million in funeral funds under management and 90,000 clients.

The Federation Platform business reached $347 million in funds under administration during the year (30 June 2016: $290 million). Following receipt of its superannuation licence in May 2016, Federation Super has $13.2 million in funds under administration, attracting an average balance of approximately $300,000.

Banking

Big Sky's mobile and internet banking capabilities were upgraded during the year with the introduction of fully-online account opening and identification. Customers can now access services of a similar standard to the major banks.

During the year under review, very competitive market conditions again prevailed, adding pressure to interest rate margins. Big Sky responded by targeting lower levels of lending and a stable balance sheet size.

Big Sky was again rated by S&P and maintained its BBB rating, a very pleasing result for an organisation of its size and considering the many downgrades within the sector. Big Sky's total on-balance sheet assets remained stable at $827.4 million as at 30 June 2017 (2016: $862.6 million).

PROGRESS AND PRIORITIES

What we achieved

- Continued improvement in the efficiency of the operating platform, strong growth in new business and solid investment returns.
- The launch of a number of new products and technology improvements.
- Broadening of the reach and brand profile of the capital raising capability of the business through the listing and subsequent strong performance of the Australian Unity Office Fund.

Where we were challenged

- Volatile local and international markets continued throughout the year impacting on investor confidence and, as a consequence, business investment.
- Significant new regulatory requirements and changes further undermined consumer confidence. It is clear that industry and regulators need to collaborate more closely to develop regulation that delivers real value and protection for investors while enabling innovation and business growth.

In the coming year we plan to

- Accelerate our social infrastructure development program.
- Continue to deliver consumers differentiated, higher-value products and services, and update and extend the digital capacity of the business.
- Explore new capital markets and assets in healthcare and social infrastructure.
- Expand into client segments that value specialist skills, such as family offices and universities.

For more details on Wealth's 2017 results, see the Operating and Financial Review on page 41

PERSONAL FINANCIAL SERVICES

182
financial advisers

8.4%
increase in total funds under advice to $6.53b

$824m
in loans under advice

In **February 2017, Australian Unity Trustees Limited** received a trustee licence

Australian Unity's Personal Financial Services platform works with advisers and industry partners to provide professional advice that supports its clients' financial wellbeing, helping people and their communities thrive.

The business achieved a significant milestone during the year with Australian Unity Trustees Limited being established and successfully obtaining its licence to provide traditional trustee services.

Personal Financial Services is now able to provide customers with end-to-end financial advice that will support the development of deeper intergenerational relationships and service delivery to elderly and disabled clients, while also offering a more compelling proposition to referral partners. During the year under review, funds under advice grew 8.4 percent to $6.53 billion (2016: $6.03 billion).

2017 REVIEW

Trustee Services

Australian Unity Trustees Limited successfully obtained a trustee licence from the Australian Securities and Investments Commission in February 2017. Since then, the business has focused on ensuring it meets the requisite standards of a trustee licence holder, as well as delivering sector-leading service that both enhances its reputation and satisfies the expected strong demand from Personal Financial Services and wider Australian Unity group networks.

Australian Unity dedicated significant resources during the year to prepare the Trustee Services business for operating in a licensed environment by recruiting employees with relevant skills, and implementing effective structures and business practices. This development work required considerable resourcing and this has impacted overall business profitability for the year ended 30 June 2017.

Trustee Services experienced strong growth in estate planning and legal revenue, and the pipeline of new clients continues to steadily increase through working in partnership with a growing number of advisers nationally. The Australian Unity Trustees Foundation was established during the year to enable Australians to support their philanthropic causes in an enduring way. Supporting philanthropy is another growth opportunity for the business and the foundation received its first philanthropic donation in April 2017.

Trustee-type services are increasingly in demand in Australia as the population ages, resulting in increasing rates of dementia and significant intergenerational wealth transfer. As a result a growing number of Australians and their families require protection, support and peace of mind during challenging periods. Expansion into this business is directed toward providing an opportunity for middle income Australians to access these vital services. The market is currently dominated by services and products designed for individuals with higher levels of wealth.

Financial advice

Financial advice revenue grew by 4.9 percent during the year to $55.8 million, largely due to the growth within existing practices. Regulatory changes negatively impacted revenue from the employed advice channel but the business still achieved improved earnings associated with careful management of operating costs.

The year in review saw growth in funds under advice, which was bolstered by an increase in existing self-employed practices and a small increase in the number of financial advisers to 182 at 30 June 2017 (30 June 2016: 176). The adviser recruitment pipeline is encouraging and adviser numbers are expected to grow in the 2018 financial year.

The business continued to focus on the profitability of the financial advice channel. Specific areas of focus include considerably growing the employed adviser channel and appropriately supporting tailored products that have been developed to provide a more consistent service delivery to clients and improve adviser efficiency, while also delivering additional revenue to Personal Financial Services.

Regulatory challenges will continue to impact the business in the short to medium term with the proposed minimum education standards for advisers and the new life insurance framework regulations likely to require significant attention. These changes, together with widespread bank divestment of wealth, should ultimately be positive for the business by helping to improve the public perception of advisers, better aligning the competitive frame to Australian Unity's model and creating additional opportunities.

Finance broking and insurance services

Loans under advice were $824 million at 30 June 2017, a 3.6 percent increase compared to $795 million at 30 June 2016, and finance broking revenue also grew to $2.56 million, marginally ahead of the previous year (2016: $2.53 million). The business grew loans under advice and revenue due to increased average settlements per broker even though the number of finance brokers decreased from 20 to 14 in 2017, as a result of the decision to focus on employed brokers rather than self-employed brokers. Growth in loans under advice was affected by the changes to investment lending practices and concerns about the future of negative gearing leading up to the federal election in July 2016.

After the successful migration of the general insurance personal lines portfolios to QBE, the business is now focusing on maximising the opportunities this relationship can deliver. Personal lines revenue grew to $1.47 million compared to $1.39 million for the previous year.

The business also grew general insurance broking revenue following a restructure of the business, and revenue increased to $640,000 in 2017 from $567,000 in the previous year.

PROGRESS AND PRIORITIES

What we achieved

- Australian Unity Trustees Limited successfully obtained a trustee licence from the Australian Securities and Investments Commission in February 2017.
- The Australian Unity Trustees Foundation and a specialist estate planning national legal practice were established during the year.
- A separately managed account service was launched within our financial advice business, which facilitates a better client experience and greater efficiency in the advice process, and introduces an additional revenue stream to the business.

Where we were challenged

- The business was impacted by regulatory change that resulted in a significant reduction in revenue in the financial advice business.
- Profitability was impacted during the year as a result of the investment in the Trustee Services business to prepare it for operating in a licensed environment. This involved adding significant numbers of skilled people, implementing effective national organisational structures and introducing significant changes to business practices.

In the coming year we plan to

- Significantly grow Australian Unity Trustees Limited through the expansion of services offered and geographic availability.
- Increase the number of employed financial advisers, brokers and self-employed financial advisers.
- Develop the digital platform to increase direct sales, enhance clients' experience and support intra and inter-platform business development.

For more details on the 2017 results of Personal Financial Services, see the Operating and Financial Review on page 43

INDEPENDENT & ASSISTED LIVING

Australian Unity's Independent & Assisted Living platform operates retirement communities and aged care residences, as well as providing home care and disability services. These businesses are interconnected, delivering a continuum of care and service that meets the daily needs of its customers.

During the year ending 30 June 2017, the business completed the transfer and integration of Home Care NSW into Australian Unity's operations. Completed as scheduled on 17 February 2017, the integration has resulted in 52,000 new customers and more than 4,000 employees formally transferring to Australian Unity.

2017 REVIEW

Home & Disability Services

The Home & Disability Services business grew significantly during the year due to completion of the transfer of Home Care NSW. This business now has more than 4,300 employees and more than 55,000 clients across New South Wales, Victoria and Queensland. More than 100 office locations were also added to the business as a result of the transfer.

The transfer of Home Care NSW also included a specialist Aboriginal Home Care service that provides culturally appropriate care for Indigenous Australians. Australian Unity is committed to maintaining the unique and important identity of Aboriginal Home Care and is proud to be one of the largest employers of Aboriginal and Torres Strait Islander peoples in NSW.

In total, the business delivered more than 4.5 million instances of home and disability care services during the 2017 financial year.

The operating environment for Home & Disability Services changed significantly during the year with the roll-out of the National Disability Insurance Scheme (NDIS) from July 2016.

Despite the many challenges presented by the roll-out, the business worked closely with the National Disability Insurance Agency and the NSW Department of Family and Community Services to successfully transfer about 2,000 disability clients to the NDIS.

The 6,000 disability customers still funded through the state system will transfer to the NDIS during the 2018 financial year. In addition, more than 400 new NDIS clients were added to the business—a third of whom live in Victoria.

Residential communities

Australian Unity Independent & Assisted Living owns and operates 19 retirement communities in Victoria and New South Wales. Its portfolio grew in the year under review to 2,416 independent living units (2016: 2,110).

Retirement community occupancy was greater than 97 percent across the 12 month period to 30 June 2017. Fewer than 40 independent living units remained uncontracted across the entire portfolio as at 30 June 2017, excluding the development properties.

The provision of aged care living continues to be an important area of growth for Independent & Assisted Living and is a key component of the business strategy to provide services that offer continuum of care. Independent & Assisted Living's newest residence, Campbell Place in Glen Waverley, Victoria, was completed during the year with occupancy continuing into 2018. The business had 711 operational aged care beds at the end of the year, up from 609 at 30 June 2016, due to the completion of Campbell Place.

Occupancy levels at Australian Unity's aged care residences remained high at more than 96 percent across the portfolio (excluding the recently opened Campbell Place).

Development

Collaboration with Australian Unity's Wealth platform continued during the year. In December 2016, the business closed its fourth development fund, for the Albert Road retirement community in South Melbourne, Victoria, which is being built next to Australian Unity's current corporate head office. This development fund used third-party capital—in conjunction with support from financiers —to fund the new facility.

Two further development funds were closed during the year, the first for Sienna Grange Aged Care community in Port Macquarie, NSW, and the second for the new facility to be constructed at Peninsula Grange, Mornington, Victoria.

Given the increasing demand for quality retirement accommodation and the success of the development fund model, further investment opportunities are planned for the 2018 financial year.


81.3%
growth in total segment revenue
4.5m
instances of home and disability care services delivered
97%
occupancy in retirement communities
52,000
clients and more than 4,000 employees transitioned after transfer of Home Care NSW

PROGRESS AND PRIORITIES

What we achieved

- On 19 February 2017, one year after the first transfer of clients and employees took place, the transition of Home Care NSW was formally completed. The integration resulted in 52,000 new customers and more than 4,000 employees formally transferring to Australian Unity and contributed significantly to the strong revenue growth recorded during the year (an 81.3 percent increase compared to the previous year).
- Multi-million dollar investments in client management and employee rostering software systems maximised care workers' time with clients and enabled the business to continue to grow in scale and service provision.
- The federal government's Increasing Consumer Choice legislation took effect in February 2017—resulting in all federally funded Home Care Packages shifting from provider control to consumer control. Independent & Assisted Living was one of the few providers in the industry that not only grew package volumes since this change but grew them substantially by more than 30 percent (from 797 packages on 27 February to 1,057 on 30 June 2017).
- We successfully transitioned more than 2,000 formerly state funded disability clients to the National Disability Insurance Scheme (NDIS) in year one transition regions, and added more than 400 new NDIS clients during the year, including nearly 100 in Victoria. In addition, the funding received for transitioned clients was 15 percent higher due to increased outputs (hours of service) despite less revenue per output in general.

Where we were challenged

- The roll-out of NDIS presented opportunities and challenges for providers.
- The integration of Home Care NSW remained a strong focus during the year requiring considerable, but not unexpected, human and financial resources.
- In a year of significant transition and change—particularly for the newly integrated team members from Home Care NSW—changes in rostering and operating models were required that initially caused inconvenience to some clients.

In the coming year we plan to

- Improve occupational health and safety measures across the business, in particular within the rapidly growing remote workforce with the introduction of new support tools for managers and employees and the introduction of a Retro Paid Loss Health and Safety insurance framework (commencing from July 2017). This will provide an opportunity for reduced workplace injuries and, as a consequence, potentially significant savings in premiums.
- Continue to advance the continuum of service offering with a priority to realise the existing opportunities from the Home Care NSW acquisition and pursue further growth in Home & Disability Services through geographic and service expansion.
- Continue to grow the development pipeline of new and integrated communities with the ongoing support of investor partners.

For more details on Independent & Assisted Living's 2017 results, see the Operating and Financial Review on page 44

PEOPLE

In the year under review, Australian Unity's workforce grew to its largest size in the company's 177-year history while leadership capability was further strengthened to support this growth.

Integration of Home Care NSW

Australian Unity mobilised in the year under review to ensure the smooth transition of Home Care NSW customer data and more than 4,000 new employees into its human resources systems, processes and policies. A significant change program was launched to ensure the employee experience was effectively managed during the transfer. This change program has been nominated as a finalist in the 2017 Australian HR Awards for Best Change Management Approach. Twenty-three learning hubs were set up over regional NSW to deliver training in new procedures, including electronic rostering and timesheets. All employees were also issued with a smartphone.

Strengthening leadership capability

During the year, 148 employees progressed through Australian Unity's leadership programs. The senior leadership program, Momentum, enabled leaders to work collaboratively on business strategies and key priorities, while focusing business decisions on building community value. Participants reported improved collaboration across Australian Unity's businesses and cited that the program allowed them the opportunity to think differently about their business and strategy.

The Leading with Purpose group worked together to develop a series of recommendations on how Australian Unity can ensure its *bold, warm and honest* employee value proposition lives in the organisation as a guide for decision making. Leaders on these programs developed capabilities that position them to take on new responsibilities and roles—key in an organisation experiencing growth. This year, Australian Unity's leadership programs have also been announced as finalists in the 2017 Australian HR Awards for Best Leadership Program.

2,341
employees completed Driver Safety induction

3,500
care workers trained to use mobile devices and applications

23
regional learning hubs with on-site training rooms, a technology control centre and 40+ live satellite training rooms were enabled during the transition of Home Care NSW

500
administration staff trained in new systems to increase efficiency

Delivering through digital capability

With the transition of Home Care NSW, more than half of the Australian Unity workforce is now mobile. Australian Unity recognises that a key requirement to enable these employees to operate efficiently and effectively is to provide access to real-time information and scheduling such as rosters and client information via a mobile device. This ensures access to up-to-date information and allows for more time assisting clients and less time in administration.

In the year under review, Australian Unity introduced electronic employee contracts and online probity checking. It continues to improve the Human Resources Information System (HRIS) with further functionality planned to support employees and managers in the areas of learning performance and rewards.

Building a learning organisation

Australian Unity sees ongoing learning for employees as both a key to delivering a positive customer experience as well as attracting and retaining people who align to its purpose to help people thrive. New learning programs and tools are being developed, including a learning hub where employees and managers can access information on how to develop their capabilities further.

Diversity and equal opportunity

Gender: This year's Workplace Gender Equity report showed improvement in the representation of women in management positions such that women now represent 72 percent of all managers. At the board level, Australian Unity maintained its 40 percent representation of women for the second consecutive year. The gender pay gap was improved for women in most management categories, including an eight percent positive shift in the senior manager cohort.

Aboriginal and Torres Strait Islander employees: Following the launch of its first Reconciliation Action Plan, the business implemented a number of initiatives that support the development, work environment and achievements of Aboriginal and Torres Strait Islander employees. These initiatives included the launch of new policies to support employees attending NAIDOC week and employees managing family affairs through bereavement leave ("sorry business"). A recruitment guide supports managers in the sourcing and selection of Aboriginal and Torres Strait Islanders. Australian Unity has also launched its online cultural competence training program.

Disability: Australian Unity has implemented a revised Inclusion Policy that supports principles of appropriately selecting and supporting people living with disability. In addition, the policy provides for reasonable adjustment in the workplace to support employees with disability. The Inclusion Policy seeks further advancement of policies and initiatives to improve workforce participation for employees in the coming year.

Occupational health and safety

The changing nature of the Australian Unity workforce and working environments is driving a changed, yet still diverse, risk profile. Employees work in environments ranging from offices and clinics to residential aged care facilities and clients' homes. Around 4,000 employees are mobile and on any given day more than 2,000 of our people are working in the community and in clients' homes. In response to this, the structure of Australian Unity's Health and Safety function has been improved to better address identified risks and to improve the use of data and the accessibility of information.

Leadership changes

Kevin McCoy was appointed Chief Executive Officer, Independent & Assisted Living on 1 July 2017. Karyn Munsie joined Australian Unity as Group Executive, Corporate Development, in mid-July 2017. Esther Kerr-Smith also joined Australian Unity, as Group Executive, Finance & Strategy, on 25 September 2017.

GOVERNANCE STATEMENT

Australian Unity Limited is a mutual public company with a number of wholly-owned subsidiaries carrying out the major operational activities of the Australian Unity Group.

Good corporate governance and sound risk management practices are a fundamental part of the culture and business of the Australian Unity Group (the "**Group**"), of which Australian Unity Limited (the "**Company**") is the parent. The key aspects of the Group's corporate governance framework and risk management practices are set out below.

REGULATORY FRAMEWORK

ASX listing rules

The Company is committed to maintaining high corporate governance standards and has adopted a governance framework that meets the Australian Securities Exchange ("**ASX**") requirements relevant to the Series B – Australian Unity Bonds (Tranche 1) (the "**Bonds**") and reflects the majority of ASX Corporate Governance Principles and Recommendations (as applicable). The Company continues to be listed on the ASX as a Debt Listing, following the issue and quotation of the Bonds on 15 December 2015.

Regulators

The Group's business operations are extensively regulated including by the Australian Prudential Regulation Authority ("**APRA**"), the Australian Securities and Investments Commission ("**ASIC**"), the Australian Competition and Consumer Commission and the ASX. The Company is registered as a non-operating holding company under subsection 28A(3) of the Life Insurance Act 1995 (Cwlth) and regulated by APRA under that designation. The Group is also subject to various state and commonwealth regulators across its operations and workforce including the Department of Health, the Australian Taxation Office, the Fair Work Ombudsman, the Workplace Gender Equality Agency, the Australian Transaction Reports and Analysis Centre ("**AUSTRAC**"), the Office of the Australian Information Commissioner ("**OAIC**") and other work health and safety regulators.

BOARD OF DIRECTORS

The board of directors of the Company is responsible for the governance of the Group and ensuring that the Group creates and implements risk management frameworks and processes with the ultimate objective of creating a sound risk culture within the Group.

Board composition and expertise

As at 30 June 2017, there were eight directors on the 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 average tenure of non-executive directors at the end of the year in review is four years.

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 approaches
- a commitment to both the values of the Group and the highest standards of corporate governance and risk management.

As well as these qualities, 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 board, led by the Chair, regularly considers the skills represented by the directors to ensure that the mix of skills remains appropriate to achieve the Group's objectives. The board consists of directors with a broad range of experience and expertise, and diversity in background and gender. The board has also recently implemented a new board performance review framework to ensure that it continuously identifies opportunities to improve its own performance.

The board's current '**skills-matrix**' includes: industry-specific skills and experience in the Group's businesses (healthcare, retirement communities and assisted living services, financial services, investment management and insurance) and general skills in management and human resources, finances and accounting, legal, regulatory and public policy, marketing and communications and measured risk-taking.

Board role and responsibilities

The role of the board is to promote and protect the interests of the Company and its members. It does so by taking intelligent risks, soundly governing the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

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

- appointment and terms of appointment of the Group Managing Director
- approval of Group and business unit strategies, operating plans (including budgets) and financial expenditures and allocations, and changes to the Group's capital structure above delegated limits

- approval of new subsidiaries and subsidiary board members
- setting and monitoring the Group risk management framework, control and accountability policies and systems.

Role of Chair

The Chair, 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 board met on 11 occasions during the year under review, including a meeting to approve the strategic plan and its application to the year ahead. Each meeting usually took place over two days.

Avoidance of conflicts of interest

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

On 30 June 2017, Ms Lisa Chung was appointed to the Company's board. Ms Chung's appointment followed a considered search by the Company, reflecting its plans to continuously review and complement the mix and business experience of the board and its board and committee succession planning program.

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 on matters specific to the committee's terms of reference. Each committee comprises individual directors determined by the board to be best suited to fulfil the committee's terms of reference. Membership of all committees and the number of meetings held by each committee in this reporting period are detailed in the directors' report.

The Chair of the Company is a 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 & Compliance Committee

The Audit & 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 Group's compliance with regulatory requirements and compliance policies. The A&C Committee assists the board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group.

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 and risk culture 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 the Group's 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.

HR Committee

The Human Resources, Remuneration and Nominations Committee ("**HR Committee**") is responsible for assisting the board and Chair in relation to key appointments, remuneration, nomination and related matters.

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 and financial control and reporting personnel as defined by the APRA standards.

The HR Committee also oversees the frameworks that enable the appropriate culture, workforce engagement, workplace diversity and representation of values, talent management and succession across the Group, and reviews the outputs of these frameworks at the appropriate time throughout the year.

The HR Committee works to ensure that the Group has remuneration policies and practices that fairly, responsibly and appropriately reward executives and staff. A majority of members of the HR Committee are independent non-executive directors. Further detail, including engagement of independent remuneration consultants, is contained in the Remuneration report (contained in the Director's report).

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 the Group.

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 (Cth) (the "**Corporations Act**").

AUDIT

External auditor

PwC Australia ("**PwC**") 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 for the year under review. Its audit report is provided at the end of the financial report. PwC was appointed as the auditor of the Company on 26 October 2016 following a competitive tender process and subsequent approval of the appointment from ASIC and the Company's members.

A representative from EY, the Company's previous external auditor, attended the October 2016 annual general meeting to answer any 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. A representative from PwC will attend the November 2017 annual general meeting of the Company to fulfil a similar role.

Internal audit

The Group's audit department provides independent, objective assurance and consulting services to the Group's operations. The Group's audit department assesses whether the Group's network of risk management, control and governance processes are 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

The Company is committed to the identification, management and, where relevant, quantification of risk throughout its business units and controlled entities. Risk culture, and the implementation and adherence to sound risk management frameworks and practices, is a core area of focus for the Company's board and management.

The board, informed by the work of its Risk Committee, has established a comprehensive enterprise risk management policy and framework covering significant business risks and strategic considerations, and adopted a risk appetite statement. 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 and maintain risk registers, which are regularly reviewed and updated. 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 risks 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, information security 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.

Tax transparency

On 16 November 2016, the Company (as the head company of the "Australian Unity tax consolidated group") became a signatory to the ATO Board of Taxation's Registry in respect of the Voluntary Tax Transparency Code (the "**Tax Transparency Code**"). The Tax Transparency Code supports greater tax disclosure in Australia and reflects the Company's commitment to compliance and governance. The Australian Unity Tax Transparency Report publishes details of the taxes paid or payable by the "Australian Unity tax consolidated group" and is released annually through the Company's website.

Compliance

The Company 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.

FINANCIAL INFORMATION

FINANCIAL OVERVIEW

Revenue attributable to members has increased by 20.3 percent year-on-year, or $252.5 million.

The financial statements provide a numerical insight into the Group's progress in meeting its objectives, the growth in members' funds, and the composition of the Group's assets and liabilities. The following pages form the formal financial report to members, and can be reviewed thoroughly for a full understanding of the Company's financial position. This overview is intended to highlight some of the salient points and information pertinent to the 2017 financial year.

The financial statements have been prepared in accordance with the requirements of the Corporations Act and relevant accounting standards. During the financial year, Australian Unity elected to early adopt the Australian Accounting Standard AASB 9 Financial Instruments with notes 34 (ai) and 35 on the following pages providing further detail as to this impact.

As a tax-paying mutual, Australian Unity is proud of the contribution it makes to the Australian community. The Group is committed to providing accessible and transparent information about its businesses and, to this end, has voluntarily adopted the Tax Transparency Code published by the Australian Board of Taxation.

There are four key financial statements: the Consolidated Statement of Comprehensive Income (p. 60); the Consolidated Balance Sheet (p. 61); the Consolidated Statement of Changes in Equity (p. 62); and the Consolidated Statement of Cash Flows (p. 63). Each of these financial statements provides important information relating to the Group's performance and should be reviewed and analysed together. These statements are supported by a set of explanatory notes beginning on page 64.

The Consolidated Statement of Comprehensive Income lists the income and expenses that produce the overall profit after tax of $46.8 million. This combines the results of all of the Group's operations from across the portfolio of businesses.

The revenue presented in the Statement of Comprehensive Income of $1.75 billion, shown in note 25, combines the amount attributable to members of Australian Unity of $1.50 billion and the amount attributable to benefit fund policyholders of $0.25 billion. Note 25 also shows that revenue attributable to members has increased by 20.3 percent year-on-year, or $252.5 million.
As shown in note 2, this has largely been driven by the completion of the transfer of Home Care NSW from the NSW Government, with Independent & Assisted Living revenue increasing by $180.0 million. Other strong contributors to the revenue growth included health insurance premium revenue increasing by 4.9 percent and management fee revenue growth of 21.8 percent, largely attributable to the Herston Quarter development within our Wealth business. The current year also saw strong year-on-year growth in investment income of $9.1 million.

The 2017 at a glance page (p. 2), Chair's report (p. 4) and Group Managing Director's report (p. 6) all reference total revenues of $2.05 billion. Total revenues are comprised of the revenue referred to in the paragraph above, as shown in the Statement of Comprehensive Income, of $1.75 billion plus movements in benefit fund liabilities of $302.0 million, which are recorded through the balance sheet and not through the Statement of Comprehensive Income. These latter receipts are shown in note 32(b).

Offsetting revenue growth was an increase in expenses. Readers can see in note 25 an increase in total expenses, excluding finance costs, attributable to members of Australian Unity of 21.6 percent, or $255.8 million. The major contributor to this increase was the full-year impact of the transfer of Home Care NSW from the NSW

Government. As detailed in note 3, this has seen an increase in employee benefit expenses year-on-year of 58.7 percent, or $171.9 million, and occupancy costs of 59.4 percent, or $9.8 million.

The increase in depreciation and amortisation expense of 26.1 percent reflects the investment we have made into acquisitions and enabling technologies over the last few years. It also reflects an accelerated write-off of assets as the Company readies itself to move from its head office in South Melbourne to the Melbourne central business district. The legal and professional fee increase of 38.6 percent, or $8.4 million, reflects the effort to complete the transfer of Home Care NSW and professional service costs required to execute the Herston Quarter development project.

Finance costs remained broadly in line with the prior year with a $0.5 million improvement.

One way to examine the performance of each of the Group's businesses is to look at note 1, the Segment Information, which demonstrates the importance of our portfolio of businesses and our strategy to build up the relative strength of the non-private health insurance (PHI) businesses. Independent & Assisted Living reports an 81.3 percent increase in revenue year on year while Wealth is up 16.4 percent. The contribution of the non-PHI businesses to revenue (excluding corporate functions and eliminations) has increased to 43.4 percent compared to 35.4 percent last year.

The Consolidated Balance Sheet details the Group's assets and liabilities, along with equity. An important measure of company strength is its gearing ratio, or how much debt the company is carrying. The Company currently has issued debt (Australian Unity Bonds – ASX: AYUHB) of $250.0 million, which has a maximum covenant set on the gearing ratio of 50 percent.

Note 9(a) defines the gearing ratio and reports this as being 39.9 percent at 30 June 2017. Corporate debt, including Australian Unity Bonds, Retirement Village Investment Notes (RVINs), Development Finance loans, Subordinated Capital Notes and Loan Payable to Related Entity, totalled $332.5 million at 30 June 2017 compared to $343.9 million in the prior year. This movement was mostly due to repayments of Development Finance loans and RVINs.

Intangible assets (refer to note 14) have grown year-on-year by 6.3 percent to $372.6 million from $350.5 million. The main driver for this increase was the investment in computer software associated with the Home Care NSW integration and the Herston Quarter project management rights.

Interest cover, or the proportion of earnings before interest, tax, depreciation and amortisation needed to make interest payments, was 4.24 times, compared to 3.81 times the previous year.

Overall, Australian Unity ended the year with $893.7 million in cash and cash equivalents, compared to $916.7 million in the previous year. Cash from operating activities increased by $68.4 million, and net payments for investing activities were $47.8 million higher than the previous year, while borrowing receipts decreased by $57.0 million.

After a year of transformation and growth, the Group closed with members' funds up 7.2 percent to $621.0 million.

Kevin McCoy
Chief Financial Officer

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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

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

Level 14, 114 Albert Road, South Melbourne VIC 3205

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

The financial statements were authorised for issue by the directors on 30 August 2017.

Contents

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

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

Peter Promnitz, Chair
Rohan Mead, Group Managing Director & CEO
Lisa Chung, Non-executive Director (appointed 30 June 2017)
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 at 30 June 2017.

Principal activities

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

Dividends

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

Operating and financial review

During the year ended 30 June 2017, the Group increased profit after income tax by $11.3 million to $46.8 million with solid performances recorded by the Healthcare and Wealth businesses. Total revenue and other income increased by 25.2 percent or $351.6 million to $1,745.9 million. This sound result flowed largely from operating revenue growth generated by the Group's business segments, particularly in Independent & Assisted Living as a result of a full year's impact of the Home Care NSW acquisition, and boosted by a 66.7 percent increase in benefit fund revenue to $247.7 million.

Total expenses, excluding finance costs increased to $1,677.8 million (2016: $1,316.9 million), again reflecting the scale of the Home Care NSW acquisition, but also higher benefit fund and health insurance claims, up $120.7 million and $23.1 million respectively. Overall trading operations remained sound despite operating earnings reducing by $9.4 million to $38.9 million driven by Home Care NSW integration and additional costs. The integration was completed in February 2017.

While the Group focused on completing the integration of the Home Care NSW business, in February 2017 it also entered contractual close for the $1.1 billion Herston Quarter project in Brisbane with the Queensland Government. 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, which is now well underway, is designed to attract, train and retain the best clinicians, health workers, researchers, academics and students.

These major activities supplement the Group's continued focus on organic growth and are consistent with pursuit of its strategy of helping Australians thrive.

The Group continues to focus on organic growth supplemented by strategic, complementary acquisitions, which together provide a diverse, sustainable and commercially viable suite of health, wealth and living services that create community value. For Australian Unity, 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 segments: Healthcare, Independent & Assisted Living, Personal Financial Services and Wealth.

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, and home care and disability services.

Personal Financial Services provides financial planning, finance broking and insurance and trustee services.

The Wealth platform manages investment funds in property, Australian and international equities, fixed interest and bonds. Through Big Sky Building Society it also provides banking products.

Key aspects of the operating, financial and strategic performance of each Group business during the 2017 year are set out below.

In assessing the performance of its operating business segments the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA). As the name indicates, this measure excludes the effects of 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 1 to the consolidated financial statements.

Healthcare

Overview

Australian Unity offers individuals and families a range of health-care services and health insurance designed to support the health and wellbeing of Australians. The Healthcare business not only offers private health insurance products to suit the needs of Australians and their families, but also provides a corporate health insurance service through GU Health.

Australian Unity also offers direct healthcare services through a dental business operating out of six clinics, and a range of healthcare services through a wholly owned subsidiary, Remedy Healthcare. Remedy Healthcare operates an integrated telephonic chronic disease management, mental health and in-home healthcare service across the country.

Health insurance offers Australians a vital level of comfort in managing their health over time. Healthcare's 235,946 policyholders are, depending on the product they hold, insured against the costs of hospital accommodation, theatre fees, prostheses and more. Australian Unity's health policies also offer extras treatments including dental, optical, physiotherapy, chiropractic, remedial massage and osteopathy.

Operating and financial review *continued*

Healthcare *continued*

Overview *continued*

Linking Australian Unity members to the organisation's healthcare services helps members better manage their long-term health. In addition to supporting members to improve their health, these evidence-based services also aim to reduce hospitalisations.

Financial performance

The Healthcare platform had a very successful year despite a range of economic, structural and political challenges. With low wages growth, private health insurance is one of a number of expenses under pressure in the household budget. Political debate has also centred on the complexity of private health insurance.

Despite this complex backdrop, Healthcare generated total segment revenue of $881.8 million, which represents a $44.5 million or 5.3 percent increase compared to the previous year. The main drivers of this increase in revenue were a $40.0 million increase in health insurance premium income and $4.5 million in higher healthcare services revenues compared to the previous year.

Adjusted EBITDA for the Healthcare platform was $74.9 million, up $10.1 million or 15.5 percent compared to the prior year. This solid result was principally driven by an improved underwriting experience for both the retail and the corporate health insurance businesses. Healthcare's adjusted EBITDA margin for the year was 8.5 percent (30 June 2016: 7.7 percent).

Total operating expenses were $806.9 million, which was $34.5 million or 4.5 percent higher than the previous year. This increase was primarily due to a $37.3 million or 4.8 percent increase in health insurance operating expenses-principally due to increased claims net of risk equalisation, policyholder acquisition costs and staff costs; and a $3.9 million increase in healthcare services expenses attributed to higher business volumes and investment in growth initiatives in Remedy Healthcare.

Australian Unity Health Limited (retail health insurance)

Following a deliberate strategy to curtail unprofitable products in certain geographies, and in certain distribution channels, the number of retail health fund policyholders (including overseas visitor cover policyholders) decreased by 1.9 percent to 201,516 at 30 June 2017 (2016: 205,476).

The retail health insurance business continues to support the Members Own Health Funds venture, a collaboration between 20 not-for-profit and mutual health funds, including Australian Unity, to raise awareness of the difference in value proposition between member-based funds and the larger shareholder and overseas owned funds operating in Australia.

Lowest premium increase in a decade

In February 2017, the federal government—which regulates private health insurance premiums—approved Australian Unity's 4.46 percent increase in Forecast Contribution Income, which was below the weighted industry average of 4.84 percent.

Australian Unity understands affordability of private health insurance is a critical ongoing concern of its members, and has recognised this in health insurance premium negotiations with the federal government. Not since 2007, when the Forecast Contribution Income rose by 3.84 percent, has Australian Unity's annual increase been as low.

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 that contribute significantly to waste across the system, as well as exposing patients to often unnecessary risk and avoidable costs. The feedback received from policyholders strongly confirmed 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, encouraging them to question the necessity, risks and alternatives to recommended treatments.

GU Health (corporate health insurance)

GU Health, Australian Unity's corporate health insurance provider, is the only established fund in Australia that caters exclusively to the corporate market. GU Health increased its policyholders by 1.0 percent to 34,430 at 30 June 2017 (2016: 34,082).

GU Health continued to evolve its proposition of being a valued partner for its corporate clients. The business maintained its approach to tailored and expert health solutions, and made a significant investment in new product development initiatives that will benefit GU Health.

In the challenging health insurance climate GU Health increased its membership base and has been able to leverage its strong presence in the IT sector. The IT sector remains a key source of growth for the fund and during the year it secured a key global IT client.

Remedy Healthcare

Remedy Healthcare is a business that delivers on Australian Unity's social purpose to provide community value.

Remedy Healthcare continued its strong growth trajectory and continued to diversify its customer portfolio and revenue sources throughout the year. Delivering 750,000 episodes of care each year, the business now has equal revenue representation across its health coaching, aged care, allied health and home healthcare operations. Digital health continued to be a focus for the Remedy business, with a number of health coaching projects involving medical device integration for diabetes management, health smart phone app creation and activity monitoring commissioned during the year.

The MindStep® depression and anxiety coaching program continued to achieve significant results. Evaluation of the program by Flinders University showed recovery rates of 55 percent, with 75 percent of people experiencing a clinically significant improvement in their symptoms. Furthermore, economic evaluation showed a hospitalisation claim saving of $7,800 per participant through reduced length of stay, equating to an approximately $3 million reduction in claims paid for Australian Unity's retail health insurer in its first full year of operation.

Remedy Healthcare continued to expand its range of services in both Queensland and South Australia to include nursing, physiotherapy, occupational therapy, podiatry and dietetics. In Queensland, Remedy Healthcare moved to a new office location in Brisbane and worked closely with Queensland Health to provide post-acute care services in the Sunshine Coast, Gold Coast and Brisbane metropolitan areas. In South Australia, Remedy Healthcare has increased its level of engagement with leading private hospitals to support the safe and effective discharge of patients.

In Victoria, Remedy partnered with the Transport Accident Commission and WorkSafe Victoria to establish a new healthcare pathway for their injured clients, which has proven to be very successful and will continue into 2018. In line with other states, more Victorian private and public hospitals referred to Remedy Healthcare services during the year than in any previous year.

As part of its integrated aged care and healthcare offering, Remedy Healthcare continued to expand its aged care allied health services in New South Wales and Victoria. Unlike other providers in aged care allied health, Remedy Healthcare is translating capabilities from its other service lines such as health coaching, mental health and community based healthcare and is starting to incorporate these aspects into aged care settings. Remedy Healthcare's wellness and hydrotherapy centre at Rathdowne Place in Carlton continues to grow in scale and service offerings.

Dental

Throughout the year under review, Australian Unity operated five dental clinics located in the Melbourne CBD, South Melbourne, Box Hill, Rowville and Hughesdale in Victoria. A sixth clinic in Moonee Ponds, Victoria was opened in August 2016.

The number of patient visits to Australian Unity dental clinics during the year was 58,113 (2016: 61,092).

Challenges and Risk Management in Healthcare

Against a backdrop of very low wages growth, consumers are increasingly concerned about the affordability of private health insurance. This concern is amplified as health costs continue to rise faster than the overall inflation rate. The result is policyholders continuing the trend in recent years to downgrade their private health insurance cover, or opt out entirely. This has the effect of putting greater pressure on the public health system.

Improving the affordability of private health insurance is therefore a critical challenge. Australian Unity is placing greater emphasis on preventative health programs to reduce expensive hospitalisations, and shifting care to more appropriate and lower cost settings outside of the hospital. From a broader national policy perspective, a continuing focus on reducing waste in the healthcare system is vital. Australian Unity applauds the work of the Australian Commission on Safety and Quality in Health Care in this regard.

During the year ended 30 June 2017, the Federal Health Minister's announcement on prosthesis reform was a necessary and appropriate first step in improving the affordability of private health insurance, however, it in itself is not sufficient. If lower premium increases are to be sustained, all root causes of high increases in private health insurances—above general inflation increases in doctors' and hospital charges, ageing, supply induced demand and many other factors—need to be addressed.

Outlook

Health cost inflation eased in the last 12-18 months but Australian Unity remains strongly of the view that without major policy reform that effectively addresses input costs, it is likely health inflation inevitably will revert to its long term average—well above general inflation.

This recent easing of health cost inflation did see generally lower increases in premiums across the industry from 1 April 2017, which is positive for policyholders.

It is too soon to identify if this has resulted in customer churn levels stabilising or reducing. As the industry growth rate has reduced, the competition for a smaller share of new consumers has increased, resulting in the cost of acquisition continuing to increase.

The pressure on premium affordability is being exacerbated by a substantial rise in utilisation of health products and services—that is more care at a greater cost per care episode—much of which is unrelated to population ageing.

Wealth

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. Its expertise in property, particularly 'hard' social infrastructure assets such as healthcare, retirement villages and aged care, combined with long experience in sourcing funds in equity and debt capital markets, means it is well placed to play a meaningful role in addressing Australia's social infrastructure challenge.

The Wealth platform also offers expertise in cash, fixed interest and Australian shares, market-leading investment bonds, funeral bonds, and education savings plans, and a wide range of personal banking services through Big Sky Building Society.

With investment markets remaining volatile during the year, the Wealth business capitalised on strategic diversification of investment offerings and financial services products.

Total funds under management and administration (FUMA) within the Wealth business were $9.43 billion at 30 June 2017 (2016: $9.59 billion). Big Sky Building Society's funds under advice business ($0.71 billion) transferred to Australian Unity Personal Financial Services on 1 July 2016, accordingly on a comparative basis the 2016 FUMA was $8.88 billion.

For the year ended 30 June 2017, the Wealth business recorded a 16.4 percent increase in total segment revenue to $143.3 million (2016: $123.1 million). This result reflects a very pleasing performance in a competitive and challenging environment across all businesses in the platform.

Adjusted EBITDA increased by 50.2 percent to $30.5 million for the year ended 30 June 2017 (2016: $20.3 million). This strong result in adjusted EBITDA was positively impacted by both the ongoing work undertaken within the business designed to streamline operations and reduce capital usage, as well as strong growth in the property and investment bonds segments.

Operating and financial review *continued*

Wealth *continued*

The Wealth team also manages the investment portfolios of the Australian Unity Group, which achieved a weighted aggregate return of 3.17 percent (2016: 3.61 percent) on the Group's investment assets—including its capital stable and highly liquid insurance reserves—for the year under review. This result was well above its strategic benchmark of 2.61 percent and compares favourably to the return available on risk-free cash (measured by the Bloomberg AusBond Bank Bill Index) of 1.8 percent for the year ended 30 June 2017.

Investments

The Investments business provides investment management products and Managed Accounts for cash, fixed interest, listed real estate and Australian equities, as well as diversified (multi-sector) investment options.

During the year the business focused on its domestic investment capabilities and changed its ownership arrangements in a number of its joint ventures. Altius Asset Management became a wholly-owned subsidiary, and its key investment staff transferred to Australian Unity, where they now lead Wealth's fixed interest and cash capabilities.

With a focus on domestic capabilities, Australian Unity's Wealth platform now no longer has a direct ownership interest in Seres Asset Management or Wingate Asset Management, although it continues to utilise the investment capabilities of both of these businesses as part of its international equities investment arrangements.

Asset Manager	Fund	Performance for the year ended 30 June 2017
Equities		
Acorn	Acorn Microcap Trust (Wholesale)	**(0.56)%**
Platypus	Platypus Australian Equities Trust (Wholesale)	**9.4%**
	Platypus Systematic Growth Fund	**5.41%**
Wingate	Wingate Global Equity Fund (Wholesale)	**10.31%**
Fixed interest and cash		
Altius	Altius Bond Fund	**1.45%**
	Altius Sustainable Bond Fund	**1.30%**
Australian Unity	Australian Unity Wholesale Cash Fund	**2.24%**

Property

The Property business attracts both retail and sophisticated investors, and reinvests in social infrastructure such as aged care facilities and hospitals, as well as commercial property, retirement village development, and mortgage lending.

Total funds under management in Australian Unity's Property portfolio increased to $2.44 billion as at 30 June 2017 (2016: $2.21 billion). In addition, a multi-year pipeline of property development opportunities of $1.5 billion has been established, the majority of which is focused in the area of social infrastructure.

In February 2017, Australian Unity entered into a series of agreements for the development of the $1.1 billion Herston Quarter health precinct in Brisbane. This is an important social infrastructure project for Brisbane and Queensland, and will ultimately provide Queenslanders with access to leading health, hospital and aged care services as well as create international standard research and education facilities.

Australian Unity's Healthcare Property Trust, the largest fund of its kind in Australia, increased funds under management to $1.25 billion (2016: $1.06 billion) and posted a return of 13.96 percent for the year to 30 June 2017. During the year the Trust made a number of property acquisitions and continued to work on large-scale and long-term projects, including entering into an agreement to develop a specialist hospital as part of the Herston Quarter redevelopment, all of which aim to provide mutually beneficial outcomes for patients, hospital operators and investors.

The Retail Property Fund achieved a 32.94 percent return for investors in the year to 30 June 2017. During the 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. Subsequently, the AOF achieved a return of 12.59 percent and outperformed the S&P/ASX 300 A-REIT Accumulation Index by 18.23 percentage points.

The Australian Unity Diversified Property Fund achieved a return of 17.57 percent for the year during which many of the Fund's properties were independently revalued and achieved pleasing growth in property values.

In conjunction with the Group's Independent & Assisted Living business, the Property business also successfully raised equity to develop a new residential and aged care community on Albert Road in South Melbourne, Victoria, at Sienna Grange in Port Macquarie, NSW and also at Peninsula Grange in Mornington, Victoria.

Support for the Australian Unity Select Income Fund continues to grow from financial planning groups and it continued to generate strong recurring monthly flows during the year. The lending portfolio grew solidly over the period to $117.0 million at 30 June 2017 (2016: $87.0 million).

Australian Unity's older pooled mortgage trusts were wound up in March 2017 and investors received their final payment in early April 2017.

Life insurance and Superannuation

Australian Unity's investment bonds business continues to be Australia's market leader in investment and funeral bonds, and a leading provider of education investment funds, with $2.14 billion in funds under management and administration as at 30 June 2017 (30 June 2016: $1.99 billion).

The investment bonds business is operated through the wholly-owned entity Lifeplan Australia Friendly Society which during the year rebranded its operations under the Australian Unity brand.

During the year sales totalled $328.6 million (2016: $173.6 million) which represents an increase of 90 percent compared to the previous period. The Lifeplan Investment Bond was rated 'Highly Recommended' by Zenith Investment Partners, and the business is well positioned to capitalise on the government's caps on superannuation contributions that are expected to drive increasing demand for investment bonds.

Funds under management for education solutions increased by 16.55 percent and surpassed $174.6 million compared to $149.8 million at 30 June 2016. With over $628 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 Platform business reached $347 million in funds under administration during the year (30 June 2016: $290 million). Following receipt of its superannuation licence in May 2016, Federation Super has

$13.2 million in superannuation funds under administration attracting an average balance of approximately $300,000.

Banking

Australian Unity's banking business (Big Sky Building Society) continues to focus on delivering quality products to its customers, with a growing emphasis on digital delivery of services to better meet their needs.

Big Sky's mobile and internet banking capability were upgraded during the year and customers are now able to access services of a similar standard to that of the major banks. The introduction of fully online account opening and identification has removed the need for a physical 100 point check which was a first for Big Sky and Australian Unity.

During the year ended 30 June 2017, very competitive market conditions again prevailed and continued to add pressure to interest rate margins. Big Sky responded to these conditions proactively by targeting lower levels of lending and a stable balance sheet size.

Big Sky was again rated by S&P and maintained its BBB rating which is a very pleasing result for an organisation of its size and considering the many downgrades within the sector announced throughout the year. Big Sky's total assets remained stable at $827.4 million as at 30 June 2017 (2016: $861.6 million).

Wealth Strategy and Outlook

The Herston Quarter project will transform Australian Unity's response to Australia's social infrastructure challenge and the company's profile in Queensland, while the listing and subsequent strong performance of the Australian Unity Office Fund has broadened its reach and brand profile and already strong capital raising capability.

Having optimised the Wealth business' operating platform over recent years, centralised distribution continues to achieve strong and sustainable growth. The platform is well positioned to benefit from the collective impact of rising and better-planned wealth accumulation, the challenges and opportunities presented by Australia's ageing population, and the constraints and constant changes in superannuation.

Markets will most likely remain volatile into the next financial year, as uncertainty around both geo-political events, and the rate at which the global economy will be able to sustainably grow, continue to weigh on confidence in investment markets. Locally, low wage growth and the threat of elevated unemployment are likely to persist, tempering consumer demand and, as a consequence, business investment.

With these factors in mind, Australian Unity Wealth's strategy for 2018 and beyond is to continue to deliver differentiated, higher value products and services. It will focus on:

- the steady progression of its social infrastructure development program;
- continuing to explore new capital markets and assets in healthcare and social infrastructure;
- further expanding the innovative range of investment bonds, funeral bonds and education funds provided;
- expanding into client segments which value specialist skills, such as the middle tier of ultra-high net worth clients, family offices, universities and the like;
- clearly defining and testing its value proposition in banking, with an emphasis on digital delivery to customers;
- continuing execution of prevailing plans while tilting resource allocation towards product, marketing and front-end digital tools; and
- ongoing tightening of the operating platform for the business.

The business will also continue to update its digital capacity to ensure it is able to communicate with, and provide services to, customers in a contemporary manner that aligns with the way consumers wish to research and purchase products and services.

Personal Financial Services

Australian Unity's Personal Financial Services platform works with advisers and industry partners to provide professional advice that supports its clients' financial wellbeing, helping people and their communities thrive.

The business achieved a significant milestone during the year with Australian Unity Trustees Limited being established and successfully obtaining its licence to provide traditional trustee services. Trustee services are becoming increasingly important to the community at large and the Australian Unity customer base.

Personal Financial Services is also now able to provide end-to-end financial advice, which will support the development of deeper intergenerational relationships, service delivery to elderly and disabled clients, while also offering a more compelling proposition to referral partners.

Total segment revenue was $65.8 million which is a marginal increase compared to the previous year (2016: $65.6 million). The Personal Financial Services platform's adjusted EBITDA decreased to $1.9 million for the year ended 30 June 2017, compared to $2.2 million in 2016. The result was impacted by significant investment and restructure costs involved in preparing the Trustee Services business to operate in a licensed environment and recruit the necessary talent to prepare the business for future growth.

The business enters the 2018 financial year with a very solid and sustainable platform for significant growth, following a year of investment, restructure and consolidation.

Trustee services

Australian Unity Trustees Limited successfully obtained a trustee licence from the Australian Securities and Investments Commission in February 2017. Since then the business has focused on ensuring it meets the requisite standards of a trustee licence holder, as well as delivering sector-leading service that both enhances its reputation and satisfies the expected strong demand from Personal Financial Services and wider Australian Unity group networks.

Australian Unity dedicated significant resources during the year to prepare the Trustee Services business for operating in a licensed environment by recruiting staff with relevant skills and implementing effective structures and business practices. This development work required considerable resourcing and this has impacted overall businesses profitability for the year ended 30 June 2017.

Trustee Services experienced strong growth in estate planning and legal revenue and the pipeline of new clients continues to steadily increase, through working in partnership with a growing number of advisers nationally. The Australian Unity Trustees Foundation was established during the year to enable Australians to support their philanthropic causes in an enduring way. Supporting philanthropy is another growth opportunity for the business and the foundation received its first philanthropic donation in April 2017.

Operating and financial review *continued*

Personal Financial Services *continued*

Trustee services *continued*

Trustee-type services are increasingly in demand in Australia as population ages, resulting in increasing rates of dementia and significant intergenerational wealth transfer. As a result a growing number of Australians and their families require protection, support and peace of mind during challenging periods. Expansion into this business is directed toward providing an opportunity for middle income Australians to access these vital services. The market is currently dominated by services and products designed for individuals with higher levels of wealth.

Financial Advice

Financial advice revenue grew by 4.9 percent during the year to $55.8 million, largely due to the growth within existing practices. Regulatory changes negatively impacted revenue from the employed advice channel but the business still achieved improved earnings associated with careful management of operating costs.

For the year in review, funds under advice increased by 8.4 percent to $6.53 billion (2016: $6.02 billion). The growth in funds under advice was bolstered by growth in existing self-employed practices and a small increase in the number of financial advisers to 182 at 30 June 2017 (30 June 2016: 176). The adviser recruitment pipeline is encouraging and adviser numbers are expected to grow in the 2018 financial year.

The business continued to focus on the profitability of the financial advice channel. Specific areas of focus include considerably growing the employed adviser channel and appropriately supporting tailored products that have been developed to provide a more consistent service delivery to clients and improve adviser efficiency, while also delivering additional revenue to Personal Financial Services.

Regulatory challenges will continue to impact the business in the short to medium term with the proposed minimum education standards for advisers and the new life insurance framework regulations likely to require significant attention. These changes, together with widespread bank divestment of wealth should ultimately be positive for the business by helping to improve the public perception of advisers, better aligning the competitive frame to Australian Unity's model, and creating additional opportunities.

Finance broking and insurance services

Loans under advice were $824 million at 30 June 2017, a 3.6 percent increase compared to $795 million at 30 June 2016 and finance broking revenue also grew to $2.56 million, marginally ahead of the previous year (2016: $2.53 million). The business grew loans under advice and revenue due to increased average settlements per broker even though the number of finance brokers decreased to 14 from 20 in 2016 as a result of the decision to focus on employed brokers rather than self-employed brokers. Growth in loans under advice was affected by the changes to investment lending practices and concerns about the future of negative gearing leading up to the Federal election in July 2016.

After the successful migration of the general insurance personal lines portfolios to QBE, the business is now focusing on maximising the opportunities this relationship can deliver. Personal lines revenue grew to $1.47 million compared to $1.39 million for the previous year. The business also grew general insurance broking revenue following a restructure of the business and revenue increased to $640,000 in 2017 from $567,000 in the previous year.

Strategies and outlook

The business is taking a proactive approach to addressing the challenges presented by regulatory change and market volatility. It is diversifying its revenue streams and building capacity in streams that Australian Unity believes will be higher quality investment options over time, such as Trustee Services and general and life insurance both of which better withstand market sentiment volatility.

The Personal Financial Services business will continue to focus its development into a financial services business designed to serve the growing needs of the community. The business is well placed for growth as a result of establishing the Trustee Services offering and the opportunity to provide these services to the wider business network of advisers, accountants, members and customers.

Priorities for 2018 and beyond include:

- significantly expanding Australian Unity Trustees Limited through expansion of the breadth of services offered and further extension of the business geographically;
- strong focus on education and awareness of the estate planning and philanthropy offerings and solutions across the Australian Unity adviser and accountant networks nationally and more broadly across other referral partner networks;
- growing the number of employed financial advisers and brokers and self-employed financial advisers, while concentrating efforts on strengthening the quality of their qualifications and expertise;
- focusing on core enabling infrastructure, in particular digital capability. This includes developments and promotion of online financial literacy capability, the development of an online advice solution and the system-driven integration of estate planning services into the business' financial advice software solutions. These developments should increase direct sales, enhance clients' experience and support intra and inter-platform business development;
- continuing to grow the network of accountants as referral partners and authorising partner accountants to meet requirements relating to SMSF advice through the customised offering that was developed during the 2016 financial year. Accountants with upgraded qualifications will be valuable across all parts of the business and will provide a sound base for revenue and relationship growth in the new financial year; and
- achieving a high level of staff retention over the year, ensuring a focus on recruiting highly qualified people and investing considerably in professional development.

Independent & Assisted Living

Overview

Australian Unity's Independent & Assisted Living (IAL) platform operates retirement communities and aged care facilities, as well as providing home care and disability services. These businesses are interconnected, delivering a continuum of care and service that meets the daily needs of its customers.

During the year ending 30 June 2017, the business completed the transfer and integration of Home Care NSW into Australian Unity's operations. Completed as scheduled on 17 February 2017, the integration has resulted in 52,000 new customers and more than 4,000 employees formally transferring to Australian Unity.

The Independent & Assisted Living platform recorded strong revenue growth during the year ending 30 June 2017. Total segment revenue increased to $404.2 million (30 June 2016: $223.0 million), representing growth of 81.3 percent compared to the previous year.

IAL's adjusted EBITDA of $4.5 million (30 June 2016: $24.8 million) represents a decrease of 81.9 percent compared to the previous year. This outcome is directly attributable to the costs associated with completing the integration of Home Care NSW and investment supporting the growth of the Home & Disability Services business within IAL.

Home & Disability Services

The Home & Disability Services business grew significantly during the year due to completion of the transfer of Home Care NSW. Including Home Care NSW, the Home and Disability Services business now has more than 4,300 staff and more than 55,000 clients across New South Wales, Victoria and Queensland. More than 100 office locations were also added to the business as a result of the transfer.

The transfer of Home Care NSW also included a specialist Aboriginal Home Care service that provides culturally appropriate care for Indigenous Australians. Australian Unity is committed to maintaining the unique and important identity of Aboriginal Home Care and is proud to be one of the largest employers of Aboriginal and Torres Strait Islander peoples in NSW.

In total, the business delivered more than 4.5 million instances of home and disability care services during the 2017 financial year.

The operating environment for Home & Disability Services changed significantly during the year, with the roll-out of the National Disability Insurance Scheme (NDIS) from July 2016. Despite the many challenges presented by the roll-out, the business worked closely with the National Disability Insurance Agency and the NSW Department of Family and Community Services to successfully transfer about 2,000 disability clients to the NDIS.

The 6,000 disability customers still funded through the state system will transfer to the NDIS during the 2018 financial year. In addition, over 400 new NDIS clients were added to the business – a third of whom live in Victoria.

The *Increasing Consumer Choice* legislation came into effect from 27 February 2017, resulting in all federally funded Home Care Packages shifting from provider control to consumer control. This meant that packages previously tendered for by providers were given to consumers directly who then could choose their own service provider. This change was anticipated by Australian Unity and presented a significant opportunity to expand its client base.

Multi-million dollar investments in client management and staff rostering software systems – including planned mobility solutions for care workers and portal access for clients and their families – have maximised care workers' time with clients and enabled the business to continue to grow in scale and service provision. Continued optimisation of such tools is a core part of the businesses transformation program, ensuring customer experience is improved and the business is more efficient and effective.

Additional targeted programs and supporting initiatives will continue to roll out in the 2018 financial year to support the business' growth strategy, high service quality levels and customer outcomes.

With rapid growth in workforce resulting in an increasing number of people working remotely, often alone and in uncontrolled domestic situations, the business is placing an increasingly strong focus on health and safety, including the introduction of new support tools for managers and staff.

The introduction of a Retro Paid Loss Health and Safety insurance framework commencing from July 2018 is a step towards self-insurance and provides an opportunity for significant savings in premiums through the reduction of workplace injuries. Improving OH&S measures across the business will be a key focus for the year ahead.

Residential Communities

IAL owns and operates 19 retirement communities in Victoria and New South Wales (NSW). Its portfolio consists of 2,416 independent living units (2016: 2,110).

Retirement community occupancy was greater than 97 percent across the 12 month period to 30 June 2017. Fewer than 40 independent living units remained uncontracted across the entire portfolio as at 30 June 2017, excluding the development properties.

The provision of aged care living continues to be an important area of growth for IAL and is a key component of the business' strategy to provide services that offer continuum of care. IAL's newest facility, Campbell Place in Glen Waverley, Victoria, was completed during the year and is expected to be fully occupied in 2018. The business had 711 operational aged care beds at the end of the year, up from 609 at 30 June 2016 due to the completion of Campbell Place.

Occupancy levels at Australian Unity's aged care facilities remained high at over 96 percent across the portfolio, (excluding the recently opened Campbell Place).

Overall price growth in retirement village units was greater than five percent which exceeded expectations and was largely due to strong property price growth experienced in the Sydney and Melbourne residential markets which flowed through to the business' retirement communities. Expertise in property management combined with the value delivered through its day-to-day operations and the careful selection of the location of communities are significant factors in the achievement of consistently strong price growth.

All of the new developments are supported by the award-winning Better Together® model of care.

Development

Construction was either completed, substantially progressed or commenced in the following communities:

Rathdowne Place – The Residences, Carlton, Victoria

The Residences at Rathdowne Place in Carlton was completed in May 2017 and comprises 91 architecturally designed independent living apartments with premium facilities.

Peninsula Grange, Mornington, Victoria

A total of 51 new units were delivered at Peninsula Grange during the year and a further eight units are planned for early in the 2018 financial year, with the final 22 units expected to be delivered in the 2019 financial year. Of the 51 units delivered, 50 of these were contracted as at 30 June 2017.

Lifestyle Manor, Bondi, New South Wales

The second and final construction stage of this premium retirement community in Bondi, NSW was completed in August 2016. The final 42 units were 100 percent contracted prior to completion, and all units have now been settled.

Campbell Place, Glen Waverley, Victoria (formerly Wahroonga Aged Care)

The redevelopment of Wahroonga Aged Care facility in Glen Waverley, Victoria was completed in March 2017. Renamed as Campbell Place, the development comprises 102 aged care beds and 54 independent living apartments.

Operating and financial review *continued*

Independent & Assisted Living *continued*

Development Funding

Collaboration with Australian Unity's Wealth platform continued during the year. In December 2016, the business closed its fourth Development Fund for "The Grace" in South Melbourne, Victoria (Albert Retirement Village) which is being built next to Australian Unity's current Australian corporate head office. This Development Fund used third party capital, in conjunction with support from financiers, to fund the new facility.

Two further Development Funds were closed during the year, the first for Sienna Grange Aged Care Facility in Port Macquarie, NSW, and the second for the new facility to be constructed at Peninsula Grange, Mornington, Victoria.

Given the increasing demand for quality retirement accommodation and the success of the Development Fund model, further investment opportunities are planned for the 2018 financial year.

Outlook

IAL will continue to advance its continuum of service offering in the 2018 financial year. The priority will be to realise the existing opportunities from the Home Care NSW acquisition and pursue further growth in Home Care & Disability Services through geographic and service expansion. In addition, with the ongoing support of investor partners, IAL will continue to grow its development pipeline of new and integrated communities.

Significant changes in the state of affairs

Total members' funds increased to $620,975,000 at 30 June 2017 (2016: $579,523,000), an increase of $41,452,000. This movement reflects profit for the year offset by movements in reserves.

Matters subsequent to the end of the financial year

The board is not aware of any matter or circumstance arising since 30 June 2017 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Likely developments and expected results of operations

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

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

The Group is subject to a wide variety of markets, particularly financial markets and property markets. Note 20 contains an explanation of the Group's approach to market risk management.

Environmental regulation

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

Information on directors

PETER PROMNITZ, BSc (Hons), AIAA, FAICD

Mr Promnitz was appointed Chair of the board of Australian Unity Limited on 30 March 2016. He has been a director since 1 January 2013 and was appointed Deputy Chair on 28 July 2015. He is a director of Warakirri Asset Management Pty Ltd, Warakirri Dairies Pty Ltd and Warakirri Holdings Pty Ltd. Mr Promnitz was previously Chair of ASX-listed company SFG Australia Limited. Mr Promnitz is a qualified actuary. He was formerly Head of Mercer in Asia Pacific, a member of the global Mercer Executive Committee and Chair of Marsh & McLennan Companies Inc. in Australia, roles he retired from in December 2012. Prior to these senior executive roles his business experience includes a diverse career in financial services in Australia and New Zealand. He has led investment, superannuation, actuarial and human resource consulting businesses in both executive and non-executive capacities with a personal focus on clients, diversity and governance. He has not held any directorships of listed entities in addition to those set out above during the last three years.

ROHAN MEAD, Group Managing Director & CEO

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

LISA CHUNG, LLB, FAIM, FAICD

Ms Chung was appointed to the board of Australian Unity Limited on 30 June 2017. She is a director of a number of Australian Unity Limited subsidiaries, a member of the Audit and Compliance Committee, Investment Committee and Risk Committee. Ms Chung is currently Chair of Urbis Pty Limited and The Benevolent Society, a director of APN Outdoor Group Limited and Artspace, Deputy President of Trustees of the Museum of Applied Arts and Sciences (Powerhouse Museum) and an Advisory Committee Member for the University of Wollongong Early Start. Prior to this, Ms Chung was a partner specialising in commercial property and infrastructure at Maddocks Lawyers and at Blake Dawson (now Ashurst) where she also held various senior management roles and was an elected member of the firm's board. Ms Chung has not held any directorships of listed entities in addition to those set out above during the last three years.

MELINDA CILENTO, BA, BEc (Hons), MEc

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

PAUL KIRK, BEc, ACA, RITA, MAICD

Mr Kirk was appointed to the board of Australian Unity Limited on 1 February 2016. He is director of a number of Australian Unity Limited subsidiaries, Chair of the Audit & Compliance Committee and a member of the Human Resources, Remuneration and Nominations Committee. Mr Kirk is currently Managing Director and Founder of Collins Pitt Associates and is a director of the St Kilda Football Club and the Transport Accident Commission. He is a member of the Audit & Risk & Investment Advisory Committee of Monash University. He was previously a director of the Melbourne Festival, Worksafe Victoria and the Victorian Registration & Qualifications Authority. Prior to this, Mr Kirk held a number of senior positions both overseas and in Australia with the major accountancy firm, PwC, specialising in the area of corporate advice, turnaround and restructuring, profit improvement, M&A, strategic advice, risk and governance, forensic accounting and insolvency management. Following this, Mr Kirk worked for two years as a Special Adviser for Lazard Australia. Mr Kirk has not held any directorships of listed entities in addition to those set out above during the last three years.

SU MCCLUSKEY, BCom, FCPA, MAICD

Ms McCluskey was appointed to the board of Australian Unity Limited on 1 September 2015. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Human Resources, Remuneration and Nominations Committee and a member of the Audit and Compliance Committee and the Investment Committee. Ms McCluskey is also a director of The Foundation for Young Australians and is the immediate past Chief Executive Officer of the Regional Australia Institute. She is a member of the Ministerial Advisory Council on Skilled Migration and was a member of the Harper Review of Competition Policy and the Regional Telecommunications Independent Review Committee. Ms McCluskey was previously the CEO of the Council of Rural Research and Development Corporations and the Executive Director of the Office of Best Practice Regulation. Ms McCluskey has held senior positions with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. She is also a beef cattle farmer. Ms McCluskey has not held any directorships of listed entities in addition to those set out above during the last three years.

STEPHEN MAITLAND, OAM, RFD, BEc, MBus, LLM, GCURP, FCPA, FAICD, FGIA, FCIS, SFFin

Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries, a member of the Audit and Compliance Committee, Investment Committee and Risk Committee. He is a director of the Royal Automobile Club of Queensland Limited, QInsure Ltd and of several private companies. He is also an independent member of several audit and compliance committees and past President of the Queensland Division of CPA Australia. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 45 years' experience in the banking and finance industries and was Chief Executive Officer of the Queensland Office of Financial Supervision between 1992 and 1999. He was previously a director of Centrepoint Alliance Limited. Mr Maitland has not held any directorships of listed entities in addition to those set out above during the last three years.

GREG WILLCOCK, BCom, FCPA, FAICD, MAIM, FFin

Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is a director of a number of Australian Unity Limited subsidiaries, Chair of the Risk Committee and a member of the Audit and Compliance Committee. Mr Willcock is also a director of Australian Unity Investments Real Estate Limited which is the responsible entity for the listed Australian Unity Office Fund. Mr Willcock has over 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Bank of Australia in the areas of risk management, strategy and change management. Mr Willcock was previously a director of the Customer Owned Banking Association (COBA). Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

Company secretaries

MELINDA HONIG, BEc, LLB, GAICD, General Counsel, Company Secretary & Chief Risk Officer

Ms Honig joined Australian Unity in February 2016, as General Counsel, Company Secretary, and Chief Risk Officer. In her role, Ms Honig is responsible for managing the Group's Legal, Compliance, Risk, and Secretariat function. She is also secretary for all Group subsidiary boards. Prior to joining Australian Unity, Ms Honig worked for GE for 15 years, five of those years with GE Capital in the role of General Counsel, overseeing the provision of legal services to GE Capital's commercial finance, consumer finance and insurance businesses in Australia and New Zealand. Ms Honig brings to Australian Unity her executive experience in legal, compliance and company secretary functions and has worked abroad as Counsel for GE Indonesia, in operations which included transportation, energy and GE Capital. Prior to joining GE, Ms Honig was at KPMG for 5 years and undertook her legal training in Tax at KPMG.

CATHERINE VISENTIN, GIA(Cert), Assistant Company Secretary

Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group companies in 2004. She has over 20 years of involvement with the Australian Unity Limited Company Secretarial function.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2017, and the numbers of meetings attended by each director were:

	Board		Audit and Compliance Committee		Risk Committee		Investment Committee		Human Resources, Remuneration and Nominations Committee	
	A	B	A	B	A	B	A	B	A	B
Peter Promnitz	11	11	6	6	4	4	6	6	4	4
Rohan Mead	11	11	5	6	4	4	5	6	4	4
Lisa Chung	–	–	–	–	–	–	–	–	–	–
Melinda Cilento	11	11	–	–	4	4	6	6	4	4
Paul Kirk	11	11	6	6	–	–	–	–	4	4
Su McCluskey	11	11	5	6	–	–	6	6	3	4
Stephen Maitland	10	11	5	6	4	4	5	6	–	–
Greg Willcock	11	11	6	6	4	4	–	–	–	–

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

Remuneration report

Details of the Group's remuneration policy in respect of the Directors and other key management personnel are included in the Remuneration report on pages 51 to 58. Details of the remuneration paid to Directors and other key management personnel are also detailed in the Remuneration report. The Remuneration report is incorporated in and forms part of this Directors' report.

Directors' interests and benefits

Since the end of the previous financial year and to the date of signing this report, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors or related party transactions shown in the Group's financial statements) by reason of a contract made by the Company with the director or with a firm of which the director is a member, or with a company in which the director has a substantial interest, except as specified in the Key management personnel disclosures in note 30.

Insurance and indemnification of directors and officers

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

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

Parent entity

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

Provision of non-audit services by the auditor

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

Details of the amounts paid or payable to the auditor, PwC (2016: Ernst & Young), for audit and non-audit services provided during the year are set out below.

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

- all non-audit services have been reviewed by the Audit and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

	2017 $	2016 $
PwC Australia (2016: Ernst & Young Australia)		
Audit of regulatory returns	**281,847**	330,000
Tax compliance services	**212,049**	190,000
Tax consulting services	**160,000**	925,000
Other services	**1,220,832**	–
Total remuneration for non-audit services	**1,874,728**	1,445,000

Auditor's independence declaration

PwC Australia is the external auditor for the 2017 financial year (2016: Ernst & Young Australia). A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 50.

Rounding of amounts

The Company is of a kind referred to in 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
30 August 2017

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Limited for the year ended 30 June 2017, 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 audit; and

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

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

Peter van Dongen
Partner
PricewaterhouseCoopers

Melbourne
30 August 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

REMUNERATION REPORT

This Remuneration report relates to the Company's performance for the year ending 30 June 2017 including all incentives payable in respect of that performance. The report is structured as follows:

1. Key terms
2. Remuneration framework
3. Senior Executive and Group Managing Director remuneration
4. Non-executive director remuneration
5. Remuneration tables

This Remuneration report sets out the remuneration information for Australian Unity Limited and the entities it controls (Australian Unity or Group) for the year ending 30 June 2017. It has been prepared and audited as required by the *Corporations Act 2001* (the Act). The report covers all Key Management Personnel of the Group.

Australian Unity is an independent mutual company that operates on commercial principles with a social purpose and is governed by its members. Profits are reinvested into the growth of member and customer wellbeing services and products. The Company has a stated ambition to enable millions to enjoy wellbeing.

The Australian Unity business is substantial and complex with several different business streams that span a number of industries. Each of the business areas is heavily regulated and has complex market dynamics. High quality executives, senior managers and specialists are required to run these diverse and complex businesses effectively, efficiently and productively. Stringent regulatory fit and proper requirements for directors and some staff are mandatory.

A comprehensive description of the Group's activities and highlights for the year is included in the Review of Operations section of the Directors' Report.

Australian Unity's remuneration framework plays an important part in driving the successful performance of the Group and in turn the creation and delivery of value for members. The Human Resources, Remuneration and Nominations Committee (HR Committee) has particular regard to the purpose and structure of the Company, business strategies, market conditions and the expectations of relevant stakeholders in establishing and recommending the overall remuneration framework and its governance to the board.

The remuneration framework has been benchmarked and monitored to ensure it is:

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

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

During 2017, Australian Unity has made enhancements to the metrics used to evaluate business performance and the governance of incentives. The enhancements broaden the measures that evaluate business contribution, and ensure that the Group has the necessary insight and control to maximise the benefits to members and customers.

The remuneration arrangements have also been designed to maintain alignment with members' interests (both short and long term). Accordingly, executive remuneration comprises both short and long term elements, elements which are fixed and elements where payment is variable according to performance. These arrangements enable Australian Unity to attract and retain talented people who are vital to delivering current services and to achieving Australian Unity's long term strategic aspirations to have a sustainable and successful business.

Su McCluskey
Chair, HR Committee

1. Key terms

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

'Company' means Australian Unity Limited.

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

Non-executive director	Position
Peter Promnitz	Chair
Lisa Chung	Non-executive Director – appointed 30 June 2017
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

Senior Executives	Position
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Investments
Amanda Hagan	CEO Healthcare
Kevin McCoy	Chief Financial Officer
Derek McMillan	CEO Independent and Assisted Living

'Senior Executives' means the Group Managing Director and all executives who report to the Group Managing Director. This includes all senior managers (within the meaning of the Act) and all KMP except non-executive directors. The table above includes only those Senior Executives who are also KMP.

2. Remuneration framework

2.1 Human Resources, Remuneration and Nominations Committee (HR Committee)

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

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

2.2 Advisers to the HR Committee

The HR Committee seeks advice from external advisers from time to time. For advice on matters pertaining to the remuneration of KMP, the HR Committee has engaged the services of KPMG through a competitive tender process on a retainer for a three year period. During the 2017 financial year, in addition to the annual reasonableness review, KPMG conducted a full market review of remuneration for executive and non-executive directors. KPMG confirmed that the remuneration paid to executives and non-executive directors during the year was appropriate given the competitive market, see attached letter on page 59.

KPMG is an independent remuneration adviser and is engaged only to provide remuneration advice to the Australian Unity Board. To ensure that the making of its remuneration recommendations are free from any possible or perceived influence by management, KPMG is retained directly by the HR Committee and reports directly to it through the chair of the committee.

As a term of its retainer, the HR Committee has obtained confirmation from KPMG that it was suitable for appointment as an independent adviser, that it has not provided remuneration advice to Australian Unity or any of its management team over the last three years, except in this capacity, that the remuneration practice of KPMG does not have a relationship with any member of the management team and that it would not provide other remuneration advice to management of Australian Unity during the period of its appointment as an independent adviser. KPMG may engage in other consulting arrangements with Australian Unity, but these would not in any way impact the independence of the remuneration advice provided.

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

Australian Unity's remuneration framework applies to all directors, officers and employees within Australian Unity. It includes a remuneration policy which outlines how employees are rewarded for their contribution to, and achievement in, the organisation. The policy is reviewed by the HR Committee and board on an annual basis and was updated in 2017 to reflect the enhancements to the Senior Management incentive scheme that were signalled in the 2016 annual report. The guiding principles in the policy remain broadly consistent with prior years. Relevant external advice is sought on the remuneration framework and market practices are reviewed to ensure remuneration remains relevant and comparable to the market. The key principles of the policy are to:

- Provide competitive rewards to attract, motivate and retain highly skilled employees,
- Establish goals and apply measures of performance that support Australian Unity's strategy, and
- Balance fixed and variable (short and long-term) rewards to encourage behaviour that supports the long-term strategic development, sustainability and financial soundness of Australian Unity.

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

2.4 Link to Company performance

In so far as financial objectives are concerned, the key performance measures for KMP are primarily based on sustained improvements in the financial performance of the Group and its divisions as measured by Profit After Funding (PAF). PAF measures the profit made above or below an agreed reasonable rate of return on member funds.

In respect of the performance measures, the Group's financial performance relative to the 2017 year (measured by PAF) is relevant as it links the level of financial incentives paid to the overall Company and platform results. The incentive payments in this report were paid to reward the $46.8 million profit achieved in 2017. This profit was an increase from the 2016 year and the incentives, paid or payable, recognise the performance of the different Business Units and of the Group.

When approving remuneration increases and performance payments, the board and the HR Committee also have regard to non-financial objectives which include measures such as customer satisfaction with the services provided, staff engagement and productivity, brand growth and risk and compliance management. Over the 2017 financial year, Australian Unity built on the steady growth in customer and member services in both volume and breadth. A number of other relevant key performance highlights are set out in the 2017 annual report, which is attached to this report and available online at australianunity.com.au.

3. Senior Executive and Group Managing Director (GMD) Remuneration

3.1 Remuneration Mix

Senior Executive and GMD remuneration comprises fixed remuneration and variable remuneration.

Senior Executive Remuneration	
Fixed remuneration	**Variable remuneration**
Fixed Remuneration	**Variable Incentive with deferral** (1 year assessment period with above target rewards subject to deferral for the next two financial years)

The precise mix of fixed and variable remuneration varies depending on the role, seniority of the executive and their goals and responsibilities. For all executives, it is possible that a negative declaration can be made when PAF falls below the agreed threshold and for no incentive payment to be made and for some previously accrued but deferred rewards to be clawed back. For further details of the relative proportion of fixed and variable remuneration of KMP see table 5.1.

All remuneration when paid, both fixed and variable, is cash based. As a mutual, Australian Unity does not issue shares or options, and therefore it is not possible for any director or executive to have shares or options in Australian Unity. Directors and executives may have participated in the issue of Australian Unity Bonds during the 2016 year but, if they did so, it was in their private capacity at market rates/terms. No bonds were provided to any director or executive as part of their remuneration.

3.2 Total Fixed Employment Costs (TFEC)

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

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

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

This year, with the appointment of KPMG to the role of remuneration adviser, the HR Committee commissioned a full and extensive market review for all Director and Group Executive roles to ensure the recent growth in the Company had been accurately factored into the benchmarks for the remuneration of this group.

3.3 Non-monetary benefits

Australian Unity also makes available certain other non-monetary benefits through salary packaging (including in-house products, salary sacrifice options) and wellbeing and community related benefits. All benefits are structured in accordance with the appropriate legislation, including taxation legislation. Details of any such benefits to KMP during the year under review are set out in table 5.1.

3.4 Variable remuneration

In addition to fixed reward, each Senior Executive may be offered the opportunity to participate in a variable incentive scheme.

Last year we reported that the Australian Unity Board had approved refinements to the True North incentive scheme and to the Long Term incentive (LTI) scheme for Senior Executives to apply from the 2017 financial year onwards. These improvements were implemented during 2017 and apply to KMP. The focus of the refinement is to reward Senior Executives for sustained multiyear performance. The revised scheme has combined the former Short Term incentive (STI) and Long Term incentive (LTI) schemes into a Value Share Incentive Scheme (VSIS). As a consequence of the review, no LTI offer was made in 2016 and entitlements which existed under the 2014 and 2015 schemes have been replaced by participation in the revised VSIS.

3. Senior Executive and Group Managing Director (GMD) Remuneration *continued*

3.4 Variable remuneration *continued*

The diagram below illustrates the structure of the VSIS.

1 Individual & non-financial performance

Performance rating based on achievement against individual target performance. Individuals are measured on objectives related to Customers and operations; People; Risk and compliance management; and Strategy development and implementation.

A score of between 0%-100% is allocated to each individual.

2 Financial performance

Depending on the role Financial performance is tied to the platform or business unit area of most accountability up to 70%.

All employees have a minimum of 15% tied to the Group PAF result.

Individuals in Group roles are 100% tied to the Group PAF result.

3 True North opportunity

True North Opportunity (TNO) is a percentage from 20-75% of Total Fixed Employment Cost.

4 Reward declared

Individual performance outcomes are determined by the Group Managing Director or Australian Unity Board (in the case of the Group Managing Director).

Discretion on final amounts may be applied where there are material items that required adjustment for.

5 Reward payment

For KMP, payments in excess of 70% of their TNO will result in two thirds of the amount above 70% being deferred. This amount will be paid only if financial performance is sustained, with the first half payable after one year and the second payable after the second year.

If the PAF growth falls substantially below target, participants can suffer a negative incentive declaration. In this instance, prior year deferred amounts can be reduced or lost altogether depending on the amount of the negative declaration.

Deferred awards are subject to continued employment with the Company and will not be paid on the termination of employment.

3.4.1 Incentive: Senior Executives

The VSIS is designed to motivate and reward performance against longer term goals, including longer term value creation, support for Australian Unity's risk management framework and long term financial soundness. At the commencement of a three year period the Board and GMD consider appropriate levels of growth in PAF and set targets for the Group and Platforms. The scheme encourages sustained improvements in the financial performance of Australian Unity (measured by PAF) and the quality of contributions to Australian Unity's growth and development. It is important to note that deferrals under the VSIS are subject to claw back when financial performance is not sustained, thereby ensuring executives focus on the long term growth and performance of their business.

Senior Executives and selected managers at Australian Unity who have a significant impact on the business and its success may be invited to participate in the scheme. Under the scheme, participants have the opportunity to receive an annual cash incentive depending on the successful performance of the Group or Business Unit, and considering their individual results during the year.

At the commencement of the 2017 financial year, the Group Managing Director in consultation with the HR Committee set a three year growth target for Australian Unity and each platform. At the end of the year, after consideration of the PAF growth achieved, an incentive was declared for each participant in the scheme.

In line with market practice, to support the growth and provision of sustainable and high quality services to customers, Senior Executives are individually reviewed against the following:

- Group financial performance (PAF result for Australian Unity);
- Platform financial performance and other key financial metrics (PAF result for Business Unit);
- Business Unit financial performance and other key financial metrics (PAF result for Productive Economic Unit);
- Customers and operations;
- People;
- Risk and compliance management; and
- Strategy development and implementation.

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

Rewards are uncapped and any amount, positive or negative, may be declared. For KMP, any amounts over 70% of their True North Opportunity (TNO) are settled in three equal parts:

- Year one – declared Incentive up to 70% and 1/3 of any amount over 70%.
- Year two – 1/3 of the amount over 70% from year one subject to sustained financial performance plus any eligible incentive payment from that financial year.
- Year three – 1/3 of the amount over 70% from year one subject to sustained financial performance plus any eligible incentive payment from that financial year.

The VSIS has a requirement to be self-funding which means that in assessing the performance for calculation of any incentive payments, the cost of such payments must first have been included in the financial performance.

A reward is not paid to anyone who, prior to the payment date, has resigned, given notice, or has been dismissed. Exceptions may apply in certain limited circumstances beyond the executive's control.

The board can adjust these variable components of remuneration downwards, to zero if appropriate, if such adjustments are necessary to protect the financial soundness of the Group or to respond to significant unexpected or unintended events. These decisions can take into account prior years' outcomes. Participation in the scheme is also subject to all relevant laws in respect to remuneration.

3.4.2 Deferred Incentive

Due to the introduction of the VSIS in 2017, an LTI offer was not made in 2016. Any existing entitlements for the 2014 and 2015 schemes, which would have been due to be rewarded in 2017 and 2018 respectively, were forfeited and have been replaced by participation in the VSIS. With the forfeiture of previous entitlements, table 5.3 does not show any prior year LTI awards. The deferred component of the 2017 VSIS rewards is shown.

4. Non-executive director remuneration

Australian Unity's constitution and board charter require that directors meet a variety of standards in order to be eligible to remain directors of the board. These include meeting stringent 'fit and proper' standards under legislation and prudential standards. The constitution also provides that non-executive directors are to be paid fees as remuneration for their services as directors, subject to the aggregate fees not exceeding the annual sum last approved at a general meeting. Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 27 October 2014. At that meeting Members approved the sum of up to $1.3 million in aggregate fees per financial year, to be divided between the non-executive directors in an appropriate manner as determined by the directors. This amount has not changed since that time.

Non-executive director remuneration is reviewed annually by the HR Committee taking into account the duties, responsibilities and demands on directors, organisation performance, trends, industry standards, and fees paid by comparable organisations. No incentives or options are payable to non-executive directors. No change was made to directors' fees applying to the 2017 financial year.

Details of individual non-executive director allowances, payments and entitlements are set out in table 5.1.

5. Remuneration tables

5.1 Remuneration for the year ended 30 June 2017

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

		Fixed			Variable				
Name	**Year**	**Cash salary and fees[1] $**	**Non-monetary benefits[1 & 4] $**	**Super-annuations contri-bution[2 & 5] $**	**Cash payable (Current year incentive)[1] $**	**Cash payable (Deferred incentive or ex gratia payment)[3] $**	**Total remuneration $**	**Variable proportion of the current year's total %**	**Increase in long service leave[3] $**
Non-executive directors									
Peter Promnitz, Chair	**2017**	**300,692**	**534**	**19,604**	**–**	**–**	**320,830**	**–**	**–**
	2016	170,562	–	27,517	–	–	198,079	–	–
Lisa Chung (appointed 30 June 2017)	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Melinda Cilento	**2017**	**146,119**	**–**	**13,881**	**–**	**–**	**160,000**	**–**	**–**
	2016	146,119	–	13,881	–	–	160,000	–	–
Paul Kirk (appointed 1 February 2016)	**2017**	**146,119**	**–**	**13,881**	**–**	**–**	**160,000**	**–**	**–**
	2016	56,199	–	5,339	–	–	61,538	–	–
Su McCluskey (appointed 1 September 2015)	**2017**	**125,410**	**–**	**34,590**	**–**	**–**	**160,000**	**–**	**–**
	2016[7]	138,310	–	20,459	–	–	158,769	–	–
Stephen Maitland	**2017**	**146,119**	**213**	**13,881**	**–**	**–**	**160,213**	**–**	**–**
	2016	146,119	–	13,881	–	–	160,000	–	–
Greg Willcock	**2017**	**146,119**	**142**	**13,739**	**–**	**–**	**160,000**	**–**	**–**
	2016	146,119	–	13,881	–	–	160,000	–	–
Non-executive directors whose appointment ceased during 2016									
Glenn Barnes (ceased 29 March 2016)	2016	228,989	–	14,852	–	–	243,841	–	–
Eve Crestani (ceased 20 February 2016)	2016	98,911	–	9,610	–	–	108,521	–	–
Sub-total Non-executive directors	**2017**	**1,010,578**	**889**	**109,576**	**–**	**–**	**1,121,043**		**–**
	2016	1,131,328	–	119,420	–	–	1,250,748		–
Executives									
Rohan Mead, Group Managing Director[6]	**2017**	**1,086,895**	**1,510**	**35,000**	**379,533**	**400,000**	**1,902,938**	**41%**	**30,253**
	2016	1,042,959	1,934	33,278	490,680	144,500	1,713,351	37%	24,930
David Bryant	**2017**	**771,519**	**4,380**	**19,616**	**764,520**	**–**	**1,560,035**	**49%**	**15,873**
	2016	768,773	6,837	19,308	428,798	180,569	1,404,285	43%	11,650
Amanda Hagan	**2017**	**710,664**	**1,552**	**45,115**	**172,557**	**–**	**929,888**	**19%**	**17,501**
	2016	684,714	1,934	19,308	321,300	100,326	1,127,582	37%	19,001
Kevin McCoy	**2017**	**516,894**	**925**	**19,616**	**279,614**	**–**	**817,049**	**34%**	**15,922**
	2016	499,154	848	19,308	262,500	47,612	829,422	37%	9,273
Derek McMillan	**2017**	**685,032**	**4,380**	**26,840**	**–**	**–**	**716,252**	**0%**	**35,386**
	2016	611,786	6,837	26,533	313,500	126,172	1,084,828	41%	24,140
Total	**2017**	**4,781,582**	**13,636**	**255,763**	**1,596,224**	**400,000**	**7,047,205**		**114,935**
	2016	4,738,714	18,390	237,155	1,816,778	599,179	7,410,216		89,004

1 Short-term benefits
2 Post-employment benefits
3 Long-term benefits
4 Non-monetary benefits refer to salary packaged benefits such as motor vehicles, and some health insurance and car parking deductions.
5 A directors' retiring allowance scheme, for which provision has been made over the years, was closed to new appointees in 2004. Ms Eve Crestani was the last director eligible to receive a retiring allowance under the scheme. During the 2016 year, the retirement benefits provision for Ms Crestani increased by $18,080[2] and Ms Crestani was entitled to and received a retirement payment of $327,137 from the provision.
6 On 15 September 2016, an additional one off payment was made to the Group Managing Director to compensate for the negative impact of transitioning from previous reward schemes in prior periods and to ensure no material disadvantage was suffered as a result of that transition.
7 A 2016 amount of $24,000, incorrectly allocated as a Non-monetary benefit in that year, has been correctly included as part of 2016 Cash salary and fees in the above table.

In addition to the above amounts, Mr Greg Willcock and Ms Eve Crestani received directors' fees from Australian Unity Investments Real Estate Limited (AUIREL), a related entity, during the relevant periods. Mr Willcock and Ms Crestani were specifically appointed as directors of AUIREL by reference to their capacity to facilitate AUIREL's fulfilment of its duties as a responsible entity of a listed investment scheme. As such, the fees paid to Mr Willcock and Ms Crestani are for their skills and experience in their capacity as directors of AUIREL and are not referable to their role as directors of the Company.

		Fixed		
Name	Year	Cash salary and fees[1] $	Super-annuation contri-butions[2] $	Total remuneration $
Non-executive directors				
Greg Willcock	**2017**	**82,192**	**5,978**	**88,170**
	2016	69,029	6,558	75,587
Non-executive directors whose appointment ceased during 2016				
Eve Crestani (ceased 20 February 2016)	2016	23,654	–	23,654
Total Non-executive directors	**2017**	**82,192**	**5,978**	**88,170**
	2016	92,683	6,558	99,241

1 Short term benefits
2 Post-employment benefits

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

5.2 Details of remuneration –Annual and deferred incentives for relevant executives

The table shows details of current incentives awarded, payable and deferred.

Name	True North Opportunity amount $	True North amount awarded based on Performance %	True North amount awarded based on Performance $	True North variable amount payable $	Maximum True North deferred variable amount (payable subject to ongoing performance) $
Rohan Mead	846,385	45%	379,533	379,533	–
David Bryant	567,760	264%	1,498,696	764,520	734,176
Amanda Hagan	488,775	35%	172,557	172,557	–
Kevin McCoy	359,599	93%	335,403	279,614	55,789
Derek McMillan	488,775	0%	–	–	–

5.3 Details of remuneration – Long term performance related incentives for relevant executives

The table below shows details of deferred incentives awarded but which have yet to vest, including their maximum possible value on vesting.

	Deferred Incentive				
Name	Date when deferred incentive was awarded	Financial year for which the deferred incentive will be full payable	Maximum total value of deferred incentive $	Proportion of deferred incentive payable %	Proportion of incentive not earned %
David Bryant	30 August 2017	2018	367,088	–	–
		2019	367,088	–	–
Kevin McCoy	30 August 2017	2018	20,895	–	–
		2019	27,894	–	–

5. Remuneration tables *continued*

5.4 Contract terms for relevant executives

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

Name	Employee initiated notice period[1]	Employer initiated notice period[2]	Termination benefit[3]
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant	6 months	6 months	none
Amanda Hagan	6 months	6 months	none
Kevin McCoy	6 months	6 months	none
Derek McMillan	6 months	6 months	none

1 All relevant executives have contract durations with no set term.
2 Payment in lieu of notice may be made and the Group's redundancy policies may also apply.
3 Entitlement to at risk incentives is set out in section 5.3 above.

KPMG

Tower Two
Collins Square
727 Collins Street
Melbourne Vic 3008

GPO Box 2291U
Melbourne Vic 3001
Australia

ABN: 51 194 660 183
Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

Ms Su McCluskey
Chairman of the Human Resources, Remuneration and Nominations Committee
Australian Unity Limited
114 Albert Road
South Melbourne VIC 3205

Contact Ben Travers 03 9288 5279
Vera Zadniprovska 02 9455 9069

21 July 2017

Dear Ms McCluskey

During the year ended 30 June 2017, the Chairman of the Human Resources, Remuneration and Nominations Committee of Australian Unity's Board of Directors engaged KPMG to provide the following to assist the Board in its decision making:

- benchmarking data and market practice in respect of key management personnel ("KMP") and Non-Executive Director remuneration; and
- assessment of incentive plan structure against Australian Prudential Regulation Authority's guidelines.

Our view is that Australian Unity's remuneration packages for the KMP and Non-Executive Directors provided in FY17 are reasonable and are consistent with and appropriate in comparison to Australian market practices.

The total remuneration packages at target[1] for the majority of the KMP are at the 50th percentile of market or between the 50th and the 75th percentiles. The market is reflective of an ASX-listed comparator group based on size, industry and operational parameters relative to those of Australian Unity and unlisted entities including health care insurers, operators and credit unions.

The advice provided by KPMG does not constitute a 'remuneration recommendation' as defined in Section 9B of the *Corporations Act 2001* as it relates to the provision of information and/or advice on the taxation, legal or accounting implications of specific elements of the remuneration framework.

We confirm that all advice was:

- provided directly to the Chairman of the Human Resources, Remuneration and Nominations Committee; and
- provided free from undue influence of the member (or members) of the KMP that the advice related to.

Please contact me if you would like to discuss.

Yours sincerely

Ben Travers

Ben Travers
Partner

[1] Total remuneration at target is the sum of base salary and superannuation (fixed remuneration), and target total incentive opportunity (target variable remuneration).

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
Revenue and other income	2	**1,745,872**	1,394,287
Expenses, excluding finance costs	3	**(1,677,773)**	(1,316,946)
Finance costs	3	**(20,644)**	(21,095)
Share of net loss of joint ventures		**(2,189)**	(1,074)
Profit before income tax		**45,266**	55,172
Income tax benefit/(expense)	4	**1,582**	(19,610)
Profit after income tax		**46,848**	35,562
Other comprehensive income			
Items that may be reclassified to profit or loss		**–**	–
Cash flow hedges	17(a)	**25**	1,546
Income tax relating to this item	17(a)	**(7)**	(464)
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	17(a)	**3,011**	–
Other comprehensive income for the year, net of tax		**3,029**	1,082
Total comprehensive income for the year		**49,877**	36,644
Profit for the year is attributable to:			
Members of Australian Unity Limited		**46,848**	35,562
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		**49,877**	36,644

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 25.

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**893,725**	916,728
Trade and other receivables	35	**172,944**	97,887
Current tax assets		**1,222**	–
Loans and advances	6, 35	**31,772**	23,634
Financial assets at fair value through profit or loss	7	**1,676,290**	1,554,920
Other financial assets at amortised cost	8, 35	**88,735**	–
Held-to-maturity investments	8, 35	**–**	66,789
Other current assets		**34,374**	24,261
Total current assets		**2,899,062**	2,684,219
Non-current assets			
Loans and advances	6, 35	**689,396**	744,828
Financial assets at fair value through profit or loss	7	**30,307**	20,733
Investments in associates and joint ventures		**21,986**	22,736
Property, plant and equipment	12	**184,555**	177,352
Investment properties	13	**976,799**	820,885
Intangible assets	14	**372,618**	350,513
Other non-current assets		**11,014**	3,523
Total non-current assets		**2,286,675**	2,140,570
Total assets		**5,185,737**	4,824,789
LIABILITIES			
Current liabilities			
Trade and other payables		**140,153**	114,705
Borrowings	9	**774,605**	813,645
Current tax liabilities		**–**	15,879
Provisions	16	**142,413**	121,045
Other current liabilities	10	**1,007,056**	828,183
Benefit fund policy liabilities	32	**353,014**	179,610
Total current liabilities		**2,417,241**	2,073,067
Non-current liabilities			
Borrowings	9	**314,266**	318,639
Deferred tax liabilities	15	**59,382**	61,640
Provisions		**7,191**	9,861
Other non-current liabilities		**3,232**	5,639
Benefit fund policy liabilities	32	**1,763,450**	1,776,420
Total non-current liabilities		**2,147,521**	2,172,199
Total liabilities		**4,564,762**	4,245,266
Net assets		**620,975**	579,523
EQUITY			
Members' balances		**255,919**	255,919
Reserves	17(a), 35	**4,369**	3,382
Retained earnings	17(b), 35	**360,687**	320,222
Equity attributable to members of Australian Unity Limited		**620,975**	579,523
Total equity		**620,975**	579,523

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	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 year		–	–	35,562	35,562
Other comprehensive income					
– Cash flow hedges	17(a)	–	1,082	–	1,082
Total comprehensive income		–	1,082	35,562	36,644
Transactions with owners in their capacity as owners:					
Transfers within equity	17	–	344	(344)	–
		–	344	(344)	–
Balance at 30 June 2016		255,919	3,382	320,222	579,523
Balance at 1 July 2016		**255,919**	**3,382**	**320,222**	**579,523**
Adjustment on adoption of AASB 9, net of tax	35	**–**	**(2,043)**	**(6,382)**	**(8,425)**
Profit for the year		**–**	**–**	**46,848**	**46,848**
Other comprehensive income					
– Cash flow hedges	17(a)	**–**	**18**	**–**	**18**
– Post-employment benefits	17(a)	**–**	**3,011**	**–**	**3,011**
Total comprehensive income		**–**	**986**	**40,466**	**41,452**
Transactions with owners in their capacity as owners:					
Transfers within equity	17	**–**	**1**	**(1)**	**–**
		–	**1**	**(1)**	**–**
Balance at 30 June 2017		**255,919**	**4,369**	**360,687**	**620,975**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		**1,408,435**	1,250,164
Claims and benefits paid		**(679,464)**	(626,939)
Payments to suppliers and employees		**(681,287)**	(502,383)
Life investment contracts – Contributions received		**481,131**	175,531
Life investment contracts – Withdrawals		**(351,356)**	(177,865)
Life insurance – Premiums received		**387**	282
Life insurance – Policy claims paid		**(1,659)**	(1,800)
Net receipts/(payments) of loans asset		**23,727**	(92,671)
Net receipts/(payments) of deposits liability		**(32,036)**	99,822
Interest received		**40,327**	41,023
Dividends and distributions received		**6,710**	7,479
Interest and finance charges paid		**(34,555)**	(42,220)
Income tax payments		**(15,766)**	(14,994)
Net cash inflow from operating activities	18(a)	**164,594**	115,429
Cash flows from investing activities			
Payments for business combination, net of cash receipt		**(2,459)**	(100,935)
Payments for investments		**(788,639)**	(639,161)
Payments for property, plant and equipment		**(16,675)**	(11,891)
Payments for investment properties		**(157,098)**	(65,469)
Payments for intangible assets		**(29,514)**	(29,906)
Payments for investments in associates and joint ventures		**(9,698)**	(6,305)
Receipts from/(payments for) loans to related entities		**14,400**	(29)
Receipts from transfers of investment property development rights		**17,380**	–
Receipts from investments		**637,867**	543,582
Dividends received from joint ventures		**154**	1,081
Proceeds from disposal of intangible assets		**–**	3,388
Net cash outflow from investing activities		**(334,282)**	(305,645)
Cash flows from financing activities			
Receipts from/(payments of) borrowings		**(12,692)**	99,234
Receipts from refundable lease deposits and resident liabilities		**159,377**	104,403
Net cash inflow from financing activities		**146,685**	203,637
Net increase/(decrease) in cash and cash equivalents		**(23,003)**	13,421
Cash and cash equivalents at the beginning of the financial year		**916,728**	903,307
Cash and cash equivalents at the end of the financial year	5	**893,725**	916,728

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

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).

1 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:

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.
Corporate Functions	Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity.

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 year ended 30 June 2017 is as follows:

2017	Health Insurance $'000	Healthcare Services $'000	Independent & Assisted Living $'000	Personal Financial Services $'000	Wealth $'000	Corporate Functions and Eliminations $'000	Total $'000
Total segment revenue	846,944	34,888	404,180	65,827	143,304	(19,512)	1,475,631
Inter-segment revenue	–	(8,912)	(2,638)	–	–	11,550	–
Revenue from external customers	**846,944**	**25,976**	**401,542**	**65,827**	**143,304**	**(7,962)**	**1,475,631**
Adjusted EBITDA	**69,699**	**5,249**	**4,485**	**1,913**	**30,500**	**(39,824)**	**72,022**
Depreciation and amortisation							(27,878)
Interest expense							(25,955)
Investment income							15,043
Income tax expense							13,616
Profit after income tax	–	–	–	–	–	–	**46,848**
Share of loss after tax from joint ventures (included in adjusted EBITDA)							(2,189)
Total segment assets include:							
Income producing assets	414,929	762	15,440	11,544	878,335	18,697	1,339,707
Working capital assets	69,152	4,720	42,945	7,561	19,524	29,361	173,263
Non-interest bearing assets	11,267	9,275	539,232	60,487	75,529	101,023	796,813
Total segment assets	**495,348**	**14,757**	**597,617**	**79,592**	**973,388**	**149,081**	**2,309,783**
Total segment liabilities include:							
Borrowings and net inter-segment lending	20,000	–	191,775	800	761,998	119,005	1,093,578
Working capital liabilities	262,258	3,376	63,229	7,476	52,095	46,027	434,461
Non-interest bearing liabilities	14,717	585	98,030	10,572	14,224	22,641	160,769
Total segment liabilities	**296,975**	**3,961**	**353,034**	**18,848**	**828,317**	**187,673**	**1,688,808**

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2016 is as follows:

2016	Health Insurance $'000	Healthcare Services $'000	Independent & Assisted Living $'000	Personal Financial Services $'000	Wealth $'000	Corporate Functions and Eliminations $'000	Total $'000
Total segment revenue	806,969	30,343	222,986	65,559	123,086	(15,952)	1,232,991
Inter-segment revenue	–	(7,322)	–	(1,221)	–	8,543	–
Revenue from external customers	806,969	23,021	222,986	64,338	123,086	(7,409)	1,232,991
Adjusted EBITDA	60,285	4,602	24,784	2,163	20,305	(36,105)	76,034
Depreciation and amortisation							(24,602)
Interest expense							(27,326)
Investment income							13,154
Income tax expense							(1,698)
Profit after income tax	–	–	–	–	–	–	35,562
Share of loss after tax from joint ventures (included in adjusted EBITDA)							(1,074)
Total segment assets include:							
Income producing assets	392,789	1,023	13,120	4,544	910,267	23,104	1,344,847
Working capital assets	64,354	5,254	12,468	9,859	21,856	17,435	131,226
Non-interest bearing assets	12,014	9,460	512,701	55,425	54,074	117,652	761,326
Total segment assets	469,157	15,737	538,289	69,828	986,197	158,191	2,237,399
Total segment liabilities include:							
Borrowings and net inter-segment lending	20,000	560	174,244	1,600	795,688	146,214	1,138,306
Working capital liabilities	250,686	4,797	40,815	8,714	28,492	55,384	388,888
Non-interest bearing liabilities	12,941	670	81,078	8,912	4,221	22,860	130,682
Total segment liabilities	283,627	6,027	296,137	19,226	828,401	224,458	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.

(i) Segment revenue

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

Segment revenue reconciles to total revenue as follows:

	2017 $'000	2016 $'000
Total segment revenue	**1,475,631**	1,232,991
Dividends and distributions (note 2)	**6,135**	7,479
Investment income (note 2)	**15,598**	6,508
Accommodation bond interest reclassification	**(5,266)**	(6,121)
Other	**6,102**	4,880
Revenue attributable to members of Australian Unity Limited (note 25)	**1,498,200**	1,245,737
Revenue from benefit funds (note 25)	**247,672**	148,550
Total revenue and other income	**1,745,872**	1,394,287

1 Segment information *continued*

(c) Other segment information *continued*

(ii) Adjusted EBITDA

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

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

	2017 $'000	2016 $'000
Adjusted EBITDA	**72,022**	76,034
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	**(25,912)**	(20,543)
Merger and acquisition expenses	**(134)**	(2,968)
Other	**(1,832)**	(1,091)
	(27,878)	(24,602)
Interest expense		
Finance costs (note 3)	**(20,644)**	(21,095)
Accommodation bond interest reclassification	**(5,266)**	(6,121)
Other	**(45)**	(110)
	(25,955)	(27,326)
Investment income:		
Dividends and distributions (note 2)	**6,135**	7,479
Investment income (note 2)	**15,598**	6,508
Impairment of joint venture investments (note 3)	**(6,690)**	(833)
	15,043	13,154
Profit before income tax attributable to members of Australian Unity Limited (note 25)	**33,232**	37,260
Profit before income tax of benefit funds (note 25)	**12,034**	17,912
Profit before income tax	**45,266**	55,172

(iii) Segment assets

Segment assets are split into three categories: income producing, working capital and non-interest bearing assets. Income producing assets include cash and investments including those held in funds managed by related entities. Working capital assets include trade debtors, inventory, reinsurance receivables, and inter entity trading. Non-interest bearing assets include property, plant and equipment, investment property, intangible assets, investments in associates and joint ventures, intercompany investments and other non-current assets.

The total assets reported to management are measured in a manner consistent with the amounts in these financial statements, except for investment property which is presented on a net basis of investment property, resident liabilities and refundable lease deposits. All assets are allocated based on the operations of the segment.

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

	2017 $'000	2016 $'000
Segment assets	**2,309,783**	2,237,399
Resident liabilities and refundable lease deposits	**793,313**	639,284
Retirement Village Property Fund consolidation	**55,798**	50,441
Netting of eligible deferred tax balances	**(95,185)**	(55,079)
Other reclassifications between assets and liabilities	**(16,591)**	(16,188)
Total assets attributable to members of Australian Unity Limited	**3,047,118**	2,855,857
Benefit fund assets (note 33)	**2,140,832**	1,989,337
Netting of eligible deferred tax balances	**(10,440)**	(27,443)
Total assets	**5,177,510**	4,817,751

(iv) Segment liabilities

Segment liabilities are split into three categories: borrowings, working capital liabilities and non-interest bearing liabilities. Borrowings include those held externally and also inter entity lending. Working capital liabilities include trade creditors, claims and other payables, current provisions and other liabilities and unearned income. Non-interest bearing liabilities include non-current provisions and resident ingoing fees.

The total liabilities reported to management are measured in a manner consistent with the amounts in these financial statements, except for resident liabilities and refundable lease deposits which are managed on a net basis with investment property and included in segment assets reported to management. These liabilities are allocated based on the operations of the segment.

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

	2017 $'000	2016 $'000
Segment liabilities	**1,688,808**	1,657,876
Resident liabilities and refundable lease deposits	**793,313**	639,284
Retirement Village Property Fund consolidation	**55,798**	50,441
Netting of eligible deferred tax balances	**(95,185)**	(55,079)
Other reclassifications between assets and liabilities	**(16,591)**	(16,188)
Total liabilities attributable to members of Australian Unity Limited	**2,426,143**	2,276,334
Benefit fund policy liabilities (note 32)	**2,116,464**	1,956,030
Benefit fund other liabilities (note 33)	**24,368**	33,307
Netting of eligible deferred tax balances	**(10,440)**	(27,443)
Total liabilities	**4,556,535**	4,238,228

2 Revenue and other income

	2017 $'000	2016 $'000
Commission income	**64,726**	60,675
Healthcare services revenue	**25,555**	23,008
Dividends and distributions	**6,135**	7,479
Fair value gains on investment property	**16,930**	18,156
Health insurance net premium revenue (note 23)	**843,785**	804,312
Interest income of building society	**33,687**	33,504
Investment income	**15,598**	6,508
Management fees revenue	**92,613**	76,017
Rental income	**2,640**	2,461
Independent & assisted living fees, subsidies and development activities income	**374,450**	194,474
Revenue of benefit funds (note 32)	**247,672**	148,550
Other income	**22,081**	19,143
	1,745,872	1,394,287

3 Expenses

	2017 $'000	2016 $'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	**4,082**	3,310
Commission expense	**64,275**	56,701
Communication costs	**8,671**	6,211
Computer and equipment costs	**20,195**	14,559
Depreciation and amortisation expense	**25,912**	20,543
Employee benefits expense	**464,815**	292,939
Expenses in relation to benefit funds (note 32)	**235,638**	130,638
Financial and insurance costs	**6,589**	3,948
Fund manager and administration fees	**21,991**	22,861
Health insurance net claims expense	**710,553**	687,420
Health insurance claims recoveries – Net Risk Equalisation Special Account	**(30,841)**	(35,373)
Impairment of joint venture investments*	**6,690**	838
Interest expense of building society	**15,272**	15,191
Legal and professional fees	**30,155**	21,758
Marketing expenses	**17,504**	15,491
Occupancy costs	**26,414**	16,574
Other direct expenses	**9,048**	7,912
Other expenses	**40,810**	35,425
	1,677,773	1,316,946

* The impairment of joint venture investments for the financial year ended 30 June 2017 was mainly related to the disposal of an investment in the Seres Asset Management joint venture.

	2017 $'000	2016 $'000
Depreciation and amortisation		
Depreciation of property, plant and equipment	**9,485**	7,899
Amortisation of intangible assets	**16,427**	12,644
	25,912	20,543
Finance costs		
Interest and finance charges	**20,831**	22,401
Amount capitalised	**(187)**	(1,306)
Finance costs expensed	**20,644**	21,095

4 Income tax expense/(benefit)

(a) Income tax expense/(benefit)

	2017 $'000	2016 $'000
Current tax	**(9,072)**	(379)
Current tax – benefit funds	**21,593**	14,344
Deferred tax	**11,310**	6,419
Deferred tax – benefit funds	**(9,106)**	(2,102)
Adjustments for current tax of prior periods	**(15,854)**	(4,342)
Adjustments for current tax of prior periods – benefit funds	**(453)**	5,670
	(1,582)	19,610
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Increase in deferred tax assets	**(12,082)**	(9,941)
Increase in deferred tax liabilities	**14,286**	14,258
	2,204	4,317

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

	2017 $'000	2016 $'000
Profit before income tax	**45,266**	55,172
Less: profit in benefit funds	**(12,034)**	(17,912)
	33,232	37,260
Tax at the Australian tax rate of 30% (2016: 30%)	**9,970**	11,178
Non-assessable income	**(12,315)**	(3,005)
Non-deductible expenditure	**3,953**	1,721
Other deductible expenditure	**(3,549)**	–
Other deferred tax adjustments	**–**	(8,191)
Tax in benefit funds	**12,034**	17,912
Tax credits	**(6)**	(5)
Over provision in prior years	**(11,669)**	–
Income tax expense/(benefit)	**(1,582)**	19,610

The significant reduction in income tax expense for the year ended 30 June 2017 was mainly due to a large adjustment of prior periods' income tax benefit of $10.4 million in relation to the receipts of loan amounts upon residents entering a retirement village and these receipts are non-assessable income. The income tax position was confirmed by the Australian Taxation Office via a private binding ruling covering multiple financial years.

Tax Transparency Code

In 2016 the Australian Taxation Office issued the Tax Transparency Code (TTC) which is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information. Adoption of the TTC is voluntary and intended to complement Australia's existing tax transparency measures. The Group has signed up to the TTC and supports greater tax disclosure in Australia, reflecting the Group's commitment to compliance from a regulatory and financial perspective, and transparency with respect to the Group's strategy and corporate governance. The Group will publish its 2017 Tax Transparency Reports in its website: https://www.australianunity.com.au/media-centre/news-and-media/tax-transparency-report-2017

Financial assets and liabilities

5 Financial assets – Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	**77**	83
Bank balances	**47,515**	36,464
Deposits at call	**846,133**	880,181
	893,725	916,728

(a) Deposits at call

Deposits at call include $603,000,000 (2016: $686,671,000) held in the Australian Unity Wholesale Cash Fund.

(b) Fair value and risk exposures

The carrying amount of cash and cash equivalents equals their fair value. Information about the Group exposure to interest rate risk is provided in note 20.

6 Financial assets – Loans and advances

	2017 $'000	2016 $'000
Current		
Mortgage loans	**16,177**	17,288
Personal loans	**6,288**	7,247
Loans to related entities	**16,452**	–
Provision for impairment	**(7,145)**	(901)
Total – current	**31,772**	23,634
Non-current		
Mortgage loans	**683,668**	699,573
Personal loans	**3,851**	9,942
Provision for impairment	**(4,470)**	–
Loans to related entities	**–**	31,346
Advances	**6,347**	3,967
Total – non-current	**689,396**	744,828
Total loans and advances	**721,168**	768,462

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

(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 1 June 2047 and earn interest at annual interest rates between 3.73% and 6.51% (2016: between 3.71% and 6.51%).

(b) Personal loans

The personal loans mature at various dates up to 5 July 2024 and earn interest at annual rates between 6.00% and 14.18% (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 the 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 35 for further information.

(d) Loans to related entities

The 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 $8,853,000 (2016: $9,347,000) which accrue interest on a monthly basis at an annual fixed rate of 15% (2016: 15%) and fixed rate loans of $7,599,000 (2016: $21,999,000) which accrue interest on a monthly basis at an annual fixed rate of 12% (2016: 12%). 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 30 June 2017, the current portion of loans and advances that were past due but not impaired amounted to $377,000 (2016: $632,000), while the non-current portion amounted to $13,468,000 (2016: $22,893,000). These relate to a number of borrowers from whom there is no recent history of default.

(f) Fair value and risk exposures

The fair value of current and non-current loans and advances are provided in note 11. Information about the Group's exposure to credit risk and interest rate risk is provided in note 20.

7 Financial assets at fair value through profit or loss

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

	2017 $'000	2016 $'000
Securities held by benefit funds	**1,546,964**	1,383,612
Securities held in funds managed by subsidiaries and related entities	**159,633**	192,041
	1,706,597	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:

	2017 $'000	2016 $'000
Equities	**1,060,816**	894,853
Fixed interest and other debt securities	**410,559**	419,411
Mortgage trusts	**12,522**	7,159
Property syndicates and trusts	**63,067**	62,189
	1,546,964	1,383,612

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

	2017 $'000	2016 $'000
Equities	**40,271**	49,013
Fixed interest and other debt securities	**84,383**	92,157
Mortgage trusts	**5,512**	11,287
Property syndicates and trusts	**29,467**	39,584
	159,633	192,041

(c) Current and non-current split

The redemption terms for investments in certain managed trusts can be varied by their responsible entities in response to market conditions. For those investments which cannot be redeemed entirely within one year from reporting date, the amounts have been allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at the end of the reporting period.

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

	2017 $'000	2016 $'000
Current	**1,676,290**	1,554,920
Non-current	**30,307**	20,733
	1,706,597	1,575,653

(d) Fair value and risk exposures

Information on the fair value measurement basis is provided in note 11 while information about the Group's exposure to market risk is provided in note 20.

8 Financial assets – Other financial assets at amortised cost

In the prior year, bank bills and term deposits were classified as Held-to-maturity investments. With the application of AASB 9 Financial instruments, from 1 July 2016 these assets are classified as Other financial assets at amortised cost. Refer to note 35 for further information on this change.

	2017 $'000	2016 $'000
Other financial assets at amortised cost – Bank bills and term deposits	88,735	–
Held-to-maturity investments – Bank bills and term deposits	–	66,789

Fair value and risk exposures

Due to the short term nature of these investments, their carrying amount is assumed to approximate their fair value. Information about the Group's exposure to credit risk and the credit quality in relation to these investments is provided in note 20.

9 Financial liabilities – Borrowings

	2017 $'000	2016 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**83,565**	77,710
Retirement Village Investments Notes	**27,830**	18,642
	111,395	96,352
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**–**	4,411
Unsecured interest bearing liabilities		
Call deposits	**356,734**	297,687
Term deposits	**301,364**	401,574
Development finance loans	**12**	8,521
Loan payable to related entity	**5,100**	5,100
	663,210	712,882
Total current borrowings	**774,605**	813,645
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	**23,766**	33,253
Unsecured interest bearing liabilities		
Australian Unity Bonds – face value	**250,000**	250,000
Valuation at amortised cost	**(4,711)**	(6,026)
Australian Unity Bonds – at amortised cost	**245,289**	243,974
Subordinated capital notes	**30,000**	30,000
Term deposits	**14,684**	11,412
Development finance loans	**527**	–
Total unsecured non-current borrowings	**290,500**	285,386
Total non-current borrowings	**314,266**	318,639
Total borrowings	**1,088,871**	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 30 June 2017, the Australian Unity Bonds Covenant Gearing Ratio was 39.9% (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 balance of development finance loans represented bank loan facilities for the development of the retirement village in Mornington, Victoria (Peninsula Grange).

(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 financial year, the Group repaid $4,710,000 of maturing RVIN. The Group also extended the term of the maturing RVIN amounting to $2,022,000 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 bear a lower interest rate. In May 2017, the Group issued prospectuses to facilitate the replacement of Series 3 and 4 of RVIN totalling to $16,321,000 which matured on 30 June 2017. The prospectuses were fully subscribed with the majority of existing investors rolling over into the new issues which mature on 30 June 2019.

The balance of RVIN as at 30 June 2017 amounted to $51,596,000 of interest bearing liabilities (30 June 2016: $51,912,000 interest bearing liabilities and $4,411,000 non-interest bearing liabilities).

9 Financial liabilities – Borrowings *continued*

(c) Retirement Village Investment Notes (RVIN) *continued*

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	30 June 2017 $'000	30 June 2016 $'000
RVIN – Series 1	5	30 November 2017	7.50%	620	–
	6	30 November 2017	6.50%	8,581	–
	7	30 November 2017	5.60%	6,770	–
	4	30 November 2016	8.50%	–	1,318
RVIN – Series 2	6	31 March 2018	6.10%	2,912	–
	5	31 December 2017	6.50%	4,118	–
	3	31 December 2016	8.50%	–	770
RVIN – Series 3	10	31 March 2018	6.10%	4,514	–
	8	31 December 2017	7.50%	315	–
	9	30 June 2017	6.50%	–	6,321
	3	31 December 2016	8.50%	–	233
RVIN – Series 4	1	30 June 2017	6.50%	–	10,000
Interest bearing RVIN – current				27,830	18,642
RVIN – Series 1	4	30 November 2018	5.15%	1,288	–
	5	30 November 2019	7.50%	5,408	5,408
	5	30 November 2017	7.50%	–	620
	6	30 November 2017	6.50%	–	8,581
	7	30 November 2017	5.60%	–	6,770
RVIN – Series 2	3	31 December 2018	5.15%	734	–
	6	31 March 2018	6.10%	–	2,912
	5	31 December 2017	6.50%	–	4,118
RVIN – Series 3	8	31 December 2019	7.50%	15	15
	11	30 June 2019	5.00%	6,321	–
	10	31 March 2018	6.10%	–	4,514
	8	31 December 2017	7.50%	–	315
RVIN – Series 4	2	30 June 2019	5.00%	10,000	–
Interest bearing RVIN – non-current				23,766	33,253
Total interest bearing RVIN				51,596	51,895
RVIN – Series 3	2	30 June 2016		–	890
	5	30 June 2016		–	3,521
Non-interest bearing RVIN – current				–	4,411
Total RVIN				51,596	56,306

(d) Subordinated capital notes

On 11 July 2013, the Group issued $30,000,000 of subordinated capital notes. The notes have a maturity of 10 years with a non-call 5 year period and bear a floating interest rate equal to the 90-day BBSW rate plus a margin of 3.00% per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2017, the interest rate applicable to the quarter commencing 11 April 2017 was 4.77% (30 June 2016: 5.26%).

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

(e) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2017, this rate amounted to between 0.01% and 2.05% (2016: between nil% and 2.05%).

(f) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2017 ranging between 1.45% and 4.90% (2016: between 2.00% and 7.10%).

(g) Mortgage offset savings accounts

The amounts represent customer savings accounts with the interest offsetting the interest of the respective mortgage loan accounts.

(h) Loan payable to related entity

The loan from related entity is repayable on demand and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 2%. At 30 June 2017 this rate amounted to 3.72% (2016: 3.96%).

(i) Fair value and risk exposures

The fair values of borrowings are set out in note 11. Information about the Group's exposure to risk arising from borrowings is set out in note 20.

10 Other current liabilities

	2017 $'000	2016 $'000
Financial liabilities		
Refundable accommodation deposits	**188,500**	173,373
Resident loan liabilities	**660,652**	516,402
	849,152	689,775
Non-financial liabilities		
Unearned income	**152,201**	131,050
Others	**5,703**	7,358
	157,904	138,408
Total other current liabilities	**1,007,056**	828,183

(a) Unearned income

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

(b) Refundable accommodation deposits

Refundable accommodation deposits represent payments received from the residents of aged care facilities as upfront deposits for their aged care accommodation. Residents have the ability to pay the deposits up to six months after moving into an aged care facility. These deposits are non-interest bearing and are repayable within 14 days of a resident's departure from the facility, or in instances whereby the resident becomes deceased, within 14 days of the granting of probate. Regulations restrict the permitted use of the accommodation deposits to repayment of accommodation deposit balances, capital expenditures of residential aged care facilities and investments in qualified financial products.

(c) Resident loan liabilities

Resident loan liabilities relate to residents who occupy the investment properties referred to in note 13. These liabilities represent the initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value and risk exposures

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value. Details of the Group's exposure to risk arising from other current liabilities are set out in note 20.

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
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2017.

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

(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).

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2017 and 2016 on a recurring basis.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2017				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	**2,712**	**1,098,375**	**–**	**1,101,087**
Fixed interest and other debt security trusts	**–**	**494,942**	**–**	**494,942**
Mortgage trusts	**–**	**18,034**	**–**	**18,034**
Property syndicates and trusts	**12,911**	**79,623**	**–**	**92,534**
Other financial assets	**–**	**–**	**7,048**	**7,048**
Total financial assets	**15,623**	**1,690,974**	**7,048**	**1,713,645**
Non-financial assets				
Investment properties	**–**	**–**	**976,799**	**976,799**
Total non-financial assets	**–**	**–**	**976,799**	**976,799**
Financial liabilities				
Interest rate swaps	**–**	**1,577**	**–**	**1,577**
Life investment contract policy liabilities	**–**	**1,071,464**	**–**	**1,071,464**
Total financial liabilities	**–**	**1,073,041**	**–**	**1,073,041**
30 June 2016				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	–	943,866	–	943,866
Fixed interest and other debt security trusts	–	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	–	–	820,885	820,885
Total non-financial assets	–	–	820,885	820,885
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.

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

(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) on the following page.

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. Development sites are recognised at cost.

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

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

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

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

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 instruments for the financial year ended 30 June 2017:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2015	320	745,194	745,514
Additions	–	65,469	65,469
Disposals	–	(3,388)	(3,388)
Transfers	–	(4,546)	(4,546)
Gain recognised in other income*	12	18,156	18,168
Closing balance 30 June 2016	332	820,885	821,217
Opening balance 1 July 2016	**332**	**820,885**	**821,217**
Additions	**6,750**	**157,098**	**163,848**
Disposals	**–**	**–**	**–**
Depreciation	**–**	**–**	**–**
Transfers	**–**	**(13,500)**	**(13,500)**
Transfers of development rights	**–**	**(4,614)**	**(4,614)**
Gains/(losses) recognised in other income*	**(34)**	**16,930**	**16,896**
Closing balance 30 June 2017	**7,048**	**976,799**	**983,847**

*Included in the gain recognised in other income:
Unrealised gain recognised in the profit or loss attributable to assets held at the end of the financial year

2017	**(34)**	**12,316**	**12,282**
2016	12	18,156	18,168

Valuation inputs and relationships to fair value

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

Description	Fair value at 30 June 2017 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	976,799	Discount rate	10.0% – 14.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -10.3 million/+$12.6 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 +$19.0 million/ -$17.2 million (2016: +$16.2 million/ -$14.8 million).
		Average length of residents' stay	4-8 years for serviced apartment, 9-14 years for independent living unit	The higher the average length of stay, the lower the fair value.

Valuation processes

The Group's Independent & Assisted Living Services 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.

(b) Disclosed fair values

The Group also has a number of financial instruments which are not measured at fair value on the balance sheet. As at the end of the reporting period, those which fair values differ from their amortised cost are as follows:

	2017		2016	
	Amortised cost $'000	Fair value $'000	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**699,845**	**700,279**	716,861	717,412
Advances	**6,347**	**6,347**	3,967	3,659
	706,192	**706,626**	720,828	721,071
Current and non-current liabilities				
Australian Unity Bonds	**245,289**	**261,750**	243,974	262,500
Development finance loans	**539**	**549**	8,521	8,271
Retirement Village Investment Notes	**51,596**	**52,019**	56,306	56,677
Subordinated capital notes	**30,000**	**29,462**	30,000	29,942
Term deposits	**316,048**	**315,801**	412,986	412,807
	643,472	**659,581**	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.

Non-financial assets and liabilities

12 Non-financial assets – Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2015					
Cost	14,714	146,019	34,025	22,936	217,694
Accumulated depreciation	–	(11,878)	(21,213)	(19,678)	(52,769)
Net book amount	14,714	134,141	12,812	3,258	164,925
Year ended 30 June 2016					
Opening net book amount	14,714	134,141	12,812	3,258	164,925
Additions	70	6,001	4,804	5,022	15,897
Transfers from investment properties	–	4,546	–	–	4,546
Disposals	–	–	(117)	–	(117)
Depreciation charge	–	(3,882)	(2,693)	(1,324)	(7,899)
Closing net book amount	14,784	140,806	14,806	6,956	177,352
At 30 June 2016					
Cost	14,784	156,566	38,033	27,066	236,449
Accumulated depreciation	–	(15,760)	(23,227)	(20,110)	(59,097)
Net book amount	14,784	140,806	14,806	6,956	177,352
Year ended 30 June 2017					
Opening net book amount	**14,784**	**140,806**	**14,806**	**6,956**	**177,352**
Additions	**22**	**6,135**	**5,085**	**5,433**	**16,675**
Transfers from investment properties	**13,500**	**–**	**–**	**–**	**13,500**
Transfers of development rights	**(8,380)**	**–**	**–**	**–**	**(8,380)**
Transfers to intangibles	**–**	**–**	**(1,800)**	**–**	**(1,800)**
Other transfers	**6,000**	**(6,000)**	**–**	**–**	**–**
Disposals	**–**	**(64)**	**(932)**	**(2,311)**	**(3,307)**
Depreciation charge	**–**	**(4,536)**	**(3,068)**	**(1,881)**	**(9,485)**
Closing net book amount	**25,926**	**136,341**	**14,091**	**8,197**	**184,555**
At 30 June 2017					
Cost	**25,926**	**156,613**	**34,595**	**28,938**	**246,072**
Accumulated depreciation	**–**	**(20,272)**	**(20,504)**	**(20,741)**	**(61,517)**
Net book amount	**25,926**	**136,341**	**14,091**	**8,197**	**184,555**

13 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. The development sites are held within the development entities. Upon completion of the development and the required occupancy targets being met, a number of the development sites will be sold to retirement village operators.

	2017 $'000	2016 $'000
Retirement village independent living units	**637,372**	501,048
Retirement village property funds	**79,498**	72,841
Development sites	**259,929**	242,382
Non owner-occupied property	**–**	4,614
	976,799	820,885

(a) Movements of investment properties

	2017 $'000	2016 $'000
At fair value		
Balance at the beginning of the financial year	**820,885**	745,194
Additions	**157,098**	65,469
Transfer of development rights	**(4,614)**	–
Transfers to property, plant and equipment	**(13,500)**	(4,546)
Disposals	**–**	(3,388)
Net fair value movements	**16,930**	18,156
Balance at the end of the financial year	**976,799**	820,885

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

	2017 $'000	2016 $'000
Revenue	**99,989**	49,101
Expenses	**(44,127)**	(26,006)
Changes in fair value recognised in profit or loss	**12,316**	18,156
	68,178	41,251

14 Non-financial assets – Intangible assets

	Goodwill $'000	Computer software $'000	Bed and other licences $'000	Management rights and other intangible assets $'000	Total $'000
At 1 July 2015					
Cost	25,590	82,623	12,655	79,402	200,270
Accumulation amortisation	–	(31,004)	(64)	(8,290)	(39,358)
Net book amount	25,590	51,619	12,591	71,112	160,912
Year ended 30 June 2016					
Opening net book amount	25,590	51,619	12,591	71,112	160,912
Acquisition of subsidiaries/businesses	151,369	137	–	23,793	175,299
Additions	–	24,160	–	4,293	28,453
Reclassification	(887)	–	–	887	–
Disposals	–	(1,507)	–	–	(1,507)
Amortisation charge	–	(9,892)	(96)	(2,656)	(12,644)
Closing net book amount	176,072	64,517	12,495	97,429	350,513
At 30 June 2016					
Cost	176,072	103,110	12,655	108,375	400,212
Accumulation amortisation	–	(38,593)	(160)	(10,946)	(49,699)
Net book amount	176,072	64,517	12,495	97,429	350,513
Year ended 30 June 2017					
Opening net book amount	**176,072**	**64,517**	**12,495**	**97,429**	**350,513**
Acquisition of subsidiaries/businesses	**2,937**	**–**	**–**	**–**	**2,937**
Additions	**6,414**	**19,530**	**–**	**9,289**	**35,233**
Adjustments	**(129)**	**–**	**–**	**–**	**(129)**
Transfers from/(to) property plant and equipment	**1,800**	**–**	**–**	**–**	**1,800**
Disposals	**–**	**(1,309)**	**–**	**–**	**(1,309)**
Amortisation charge	**–**	**(12,110)**	**(1,542)**	**(2,775)**	**(16,427)**
Closing net book amount	**187,094**	**70,628**	**10,953**	**103,943**	**372,618**
At 30 June 2017					
Cost	**187,094**	**117,086**	**12,655**	**120,514**	**437,349**
Accumulated amortisation	**–**	**(46,458)**	**(1,702)**	**(16,571)**	**(64,731)**
Net book amount	**187,094**	**70,628**	**10,953**	**103,943**	**372,618**

The management rights and other intangibles include those with an indefinite life of $35,910,000 as at 30 June 2017 (2016: $35,910,000). A total of $24,757,000 of the management rights is related to the acquisitions of responsible entities of investment funds and trusts. The responsible entities are profitable and expected to continue their operations on a going concern basis. The balance of $11,153,000 is the value of Home Care Service of NSW brand name that was recognised in the business acquisition. The brand name is a registered trade mark and given the ability of the Group to leverage this brand name to maintain its presence or expand in the home care sector, it is reasonably justified that the brand name has an indefinite useful life.

Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) purchased from other approved providers are valued at cost. Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) initially granted to the Group by the Department of Health and Ageing are not ascribed a value. At 30 June 2017, the Group held 225 purchased licences and 660 granted licences (2016: 231 purchased licences and 654 granted licences).

(a) Impairment tests for goodwill and management rights

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

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

	2017 $'000	2016 $'000
Healthcare	**8,293**	9,063
Independent & assisted living	**179,513**	178,534
Personal financial services	**57,137**	53,169
Wealth	**38,972**	32,735
	283,915	273,501

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

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

Pre-tax discount rates of 9.3% to 13.6% were applied to cash flow projections to the relevant CGU which represent the weighted average cost of capital (2016: 9.00%). Growth rates ranging from 2.1% to 4.1% (2016: 1.30%) were applied to cash flows beyond the four year period for which financial budgets were available.

(c) Impact of possible changes in key assumptions

It is recognised that actual time value of money may vary to what has been estimated. Based on this, it is concluded that, assuming a zero growth rate, any possible change in the pre-tax discount rate of up to 13.5% (2016: 18.6%) per annum would not cause the recoverable amount of goodwill to fall below its carrying amount.

15 Non-financial liabilities – Deferred tax balances

	2017 $'000	2016 $'000
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Accrued expenses	**13,357**	8,091
Fixed assets	**10,782**	12,078
Capitalised expenditure	**3,166**	2,701
Derived consortium management fee	**3,030**	–
Policy bonus credits	**26,728**	23,776
Provisions	**25,398**	15,821
Risk Equalisation Special Account	**3,828**	2,759
Tax losses	**8,704**	2,061
Trust distribution	**6,117**	11,431
Unrealised losses	**531**	1,308
Other assessable items	**3,725**	1,277
Total deferred tax assets	**105,366**	81,303
Deferred tax liabilities		
Allocable cost adjustment on consolidation	**1,013**	1,013
Fixed assets and investment properties	**83,422**	65,628
Management rights	**29,187**	19,698
Risk Equalisation Special Account	**11,249**	9,145
Tax deferred	**3,015**	2,755
Unrealised gains	**24,816**	40,752
Other deductible items	**12,046**	3,952
Total deferred tax liabilities	**164,748**	142,943
Net Deferred tax liabilities	**59,382**	61,640

16 Non-financial liabilities – Provisions

	2017 $'000	2016 $'000
Current provisions		
Employee benefits provision	**65,102**	48,870
Outstanding claims	**69,839**	63,336
Other provisions	**7,472**	8,839
	142,413	121,045

Outstanding claims provision

Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic cost of which will arise in a later period. Claims reported but not yet paid are included as payables. Claims provisions are determined on an actuarial basis and amounts paid or payable are recognised as part of expenses in the profit or loss. Refer to note 23 for the movements in outstanding claims provision.

17 Equity

(a) Reserves

	2017 $'000	2016 $'000
Asset revaluation reserve	**2,462**	2,462
Defined benefit reserve	**3,011**	–
Reserve for credit losses	**–**	2,042
Cash flow hedges reserve	**(1,104)**	(1,122)
	4,369	3,382
Movements:		
Asset revaluation reserve		
Balance at the beginning of the financial year	**2,462**	2,462
Balance at the end of the financial year	**2,462**	2,462
Defined benefit reserve		
Balance at the beginning of the financial year	**–**	–
Transfer from retained earnings	**3,011**	–
Balance at the end of the financial year	**3,011**	–
Reserve for credit losses		
Balance at the beginning of the financial year	**2,042**	1,698
Adjustment on adoption of AASB 9, net of tax (note 35)	**(2,043)**	–
Transfer from retained earnings	**1**	344
Balance at the end of the financial year	**–**	2,042
Cash flow hedges reserve		
Balance at the beginning of the financial year	**(1,122)**	(2,204)
Movements in hedging value during the year	**25**	1,546
Deferred tax	**(7)**	(464)
Balance at the end of the financial year	**(1,104)**	(1,122)

(i) Defined benefit reserve

The defined benefit reserve is used to record actuarial gains or losses on defined benefit liabilities and actual returns on fund assets (excluding interest income) which are recognised in other comprehensive income.

(ii) Cash flow hedges reserve

The cash flow hedges reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. The amounts are recognised in the profit or loss when the associated hedged transaction affects profit or loss.

(b) Retained earnings

Movements in retained earnings were as follows:

	2017 $'000	2016 $'000
Balance at the beginning of the financial year	**320,222**	285,004
Adjustment on adoption of AASB 9, net of tax (note 35)	**(6,382)**	–
Transfer to reserve for credit losses	**(1)**	(344)
Profit for the year	**46,848**	35,562
Balance at the end of the financial year	**360,687**	320,222

18 Cash flow information

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

	2017 $'000	2016 $'000
Profit after income tax for the year	**46,848**	35,562
Depreciation and amortisation	**25,912**	20,543
Impairment provision on investments in joint ventures	**6,690**	838
Investment gains	**(9,045)**	1,379
Fair value gains on investment property	**(16,930)**	(18,156)
Loss/(gain) on disposal of assets	**(5,079)**	1,507
Share of net profit or loss of joint ventures	**2,189**	1,074
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**(70,508)**	2,394
Decrease/(increase) in loans and advances	**25,841**	(92,522)
Increase in current tax assets	**(1,222)**	–
Increase in other operating assets	**(10,888)**	(1,840)
Increase in trade and other payables	**20,087**	13,543
Increase/(decrease) in deposits liability	**(32,036)**	99,822
Increase/(decrease) in current tax liabilities	**(15,879)**	521
Increase/(decrease) in deferred tax liabilities	**(5,406)**	3,011
Increase in provisions	**18,698**	7,896
Increase in benefit fund policy liabilities	**162,227**	58,398
Increase/(decrease) in other operating liabilities	**23,095**	(18,541)
Net cash inflow from operating activities	**164,594**	115,429

Risk Management

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

19 Critical accounting estimates and judgements

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

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

(a) Critical accounting estimates and assumptions

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

(i) Fair value of financial instruments

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

(ii) Estimated impairment of loans and advances

The accounting policy requires the Group to assess impairment of loan assets upon initial recognition of the assets and whether there has been a significant increase in credit risk as at the reporting date compared to with the risk as at the date of initial recognition. A provision for expected credit loss is estimated based on the cash shortfalls over the expected life of the assets. Individual provisioning is applied when the full collectability of a loan is identified as being doubtful. The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

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

The Group tests annually whether goodwill or other intangibles have suffered any impairment. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The recoverable amounts of cash generating units have been determined based on value-in-use calculations using certain assumptions.

(iv) Retirement village investment property

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

(v) Insurance liabilities

The estimates, assumptions and judgements arising as a result of the Group's health and life insurance operations are detailed in notes 23 and 32.

(vi) Income taxes

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

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

(i) Classification of life insurance liabilities

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

19 Critical accounting estimates and judgements *continued*

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

(ii) Interest in subsidiaries, associates and joint ventures

The Group has investments in other entities and managed investment schemes where Group entities act as the responsible entity for the schemes. In applying the accounting policy the Group exercises significant judgements to determine which entities and investment schemes are controlled and, therefore, are required to be consolidated. The Group has consolidated those entities determined as being controlled, with principal subsidiaries listed in note 21. For the interests in managed investment schemes, the Group considers its relationship with the majority of the schemes is that of an agent rather than a principal. Where the relationship is that of an agent, the Group does not have the power to control.

For interests in other entities where the Group does not have control, the Group exercises significant judgements to determine whether it has significant influence over the entity or joint control of an arrangement. Where there is a joint arrangement, the Group further determines whether it is structured as a joint operation or a joint venture. The Group has determined as investments in associates those relationships where significant influence over another entity exists. The Group has concluded that the joint arrangement investments in Acorn Capital Limited, Platypus Asset Management Pty Ltd and Fedinvest Limited are joint ventures. The Group does not have power to control these entities.

20 Financial risk management

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

The Group's Risk Management Framework (RMF) is based upon a top-down policy approach and a bottom-up process for identifying risks. It sets out the risk management principles, mandatory requirements and minimum standards that are to be applied to risk management practices across the Group. The RMF is consistent with AS/NZS ISO 31000 2009: Risk Management in identifying, assessing, controlling and treating its material risks. This analysis is recorded in business unit Risk Registers, which are fully reviewed annually by the Risk Committee. Senior Management are required to keep their business unit Risk Register current and to report regularly, including against any treatment or action plans recorded in the Risk Register. Senior Management are also required to provide regular attestations of compliance with the RMF and other applicable Group policies.

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

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

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

(a) Market risk

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

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

(i) Foreign exchange risk

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

As at the end of the reporting period, if foreign exchange rates had increased or decreased by 10% (2016: 10%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
Exchange rates +10% (2016: +10%)	**(1,718)**	(1,929)	**(1,718)**	(1,929)
Exchange rates -10% (2016: -10%)	**1,718**	1,929	**1,718**	1,929

(ii) Price Risk

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

To manage its price risk arising from equity investments, the Group diversifies its portfolio in accordance with investment policies overseen by the Group Investment Committee, the objective of which is to manage risk within acceptable limits.

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

The table below summarises the impact of changes in securities prices assuming the prices had increased or decreased by 10% (2016: 10%) at the end of the reporting period with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the security prices.

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
Securities prices +10% (2016: +10%)	**5,489**	5,443	**5,489**	5,443
Securities prices -10% (2016: -10%)	**(5,489)**	(5,443)	**(5,489)**	(5,443)

The price risk for unlisted securities is immaterial and therefore it was not included in the sensitivity analysis.

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

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2017 and 2016, the Group's borrowings at variable rate were denominated in Australian dollars.

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

	2017 $'000	**2016 $'000**
Financial assets		
Cash and cash equivalents	**393,793**	358,302
Financial assets at fair value through profit or loss	**103,758**	81,923
Loans and advances	**518,843**	557,381
	1,016,394	997,606
Financial liabilities		
Australian Unity Bonds (i)	**250,000**	250,000
Call deposits	**356,734**	297,687
Development finance loans	**539**	8,521
Loan payable to related entity	**5,100**	5,100
Subordinated capital notes (ii)	**30,000**	30,000
Interest rate swap, at notional principal amounts	**(280,000)**	(30,000)
	362,373	561,308
Net position	**654,021**	436,298

(i) The Australian Unity Bonds carry a 2.80% fixed margin (2016: 2.80%) resulting in a total interest rate at 30 June 2017 of 4.57% (2016: 5.09%). The variable interest component of the bonds was hedged via an interest rate swap at 2.20% effective from 14 July 2016 and will expire on the maturity of the bonds.

(ii) The subordinated capital notes carry a 3.00% fixed margin (2016: 3.00%) resulting in a total interest rate at 30 June 2017 of 4.77% (2016: 5.26%). Only the variable interest portion is hedged via an interest rate swap.

20 Financial risk management *continued*

(a) Market risk *continued*

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift. The scenarios are run only for interest bearing liabilities. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the board and monitored by management.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at the end of the reporting period, if interest rates had increased or decreased by 0.50% (2016: 0.50%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2017 \$'000**	**2016 \$'000**	**2017 \$'000**	**2016 \$'000**
Interest rates +0.50% (2016: +0.50%)	**1,847**	(490)	**1,847**	(490)
Interest rates -0.50% (2016: -0.50%)	**(1,847)**	490	**(1,847)**	490

(b) Credit risk

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

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

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

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

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

With the adoption of AASB 9, from 1 July 2016 the Group applies the simplified expected credit loss (ECL) approach as permitted by the standard. Under the simplified ECL approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, 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 35, a credit loss provision of \$645,000 based on a lifetime ECL has been raised against retained earnings as at 1 July 2016. The additional provision during the current financial year 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. To mitigate the risk of potential losses that may arise from any default, the building society holds collateral when required, as security for the loans. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans, net of any provisions for impairment. Loan mortgage insurance is generally taken out for any residential mortgages with an LVR in excess of 80%. Accordingly, the financial effect of these measures is that remaining credit risk on loans is very low. Some lending products will be mostly unsecured (e.g. personal loans). Loans impairment experience supports the assignment of a credit risk rating of satisfactory or better. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group Board. The compliance with credit limits by wholesale customers is regularly monitored by management.

With the adoption of AASB 9 from 1 July 2016, the Group makes an assessment whether there is a significant increase in credit risk at each reporting date. In this assessment, the Group considers historical loss experience and adjusts this with the current observable data and reasonable forecast of future economic conditions which includes macroeconomic factors to detect any indication of a significant increase in credit risk. An analysis to estimate the expected credit loss is performed on each portfolio of accounts with shared risk characteristics. As disclosed in the accounting policy note, 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 $11,053,000 was raised against the opening retained earnings and credit loss reserve. The addition to credit loss provision during the current financial year 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. In the current financial year, the balance of advances was settled and the provision was written off.

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total
	High grade $'000	Other grade $'000	$'000	$'000	$'000
At 30 June 2017					
Cash and cash equivalents	**893,725**	**–**	**–**	**–**	**893,725**
Trade and other receivables	**379**	**113,352**	**59,213**	**2,475**	**175,419**
Financial assets at fair value through profit or loss	**494,942**	**1,211,655**	**–**	**–**	**1,706,597**
Other financial assets at amortised cost	**88,735**	**–**	**–**	**–**	**88,735**
Loans and advances	**590,895**	**128,043**	**10,603**	**3,242**	**732,783**
Other financial assets	**–**	**40,929**	**–**	**–**	**40,929**
	2,068,676	**1,493,979**	**69,816**	**5,717**	**3,638,188**
At 30 June 2016					
Cash and cash equivalents	916,728	–	–	–	916,728
Trade and other receivables	440	80,605	16,842	1,680	99,567
Financial assets at fair value through profit or loss	511,568	1,064,085	–	–	1,575,653
Loans and advances	609,500	134,233	23,525	2,105	769,363
Held-to-maturity investments	66,789	–	–	–	66,789
Other financial assets	–	24,057	–	–	24,057
	2,105,025	1,302,980	40,367	3,785	3,452,157

20 Financial risk management *continued*

(b) Credit risk *continued*

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

Credit risk further arises in relation to irrevocable loan commitments provided to the customers of the Building Society. The irrevocable loan commitments are binding contracts to extend credit to customers as long as there is no violation of any condition in the contracts. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved undrawn loans of $9,683,000 (2016: $10,991,000).

The Group provides financial guarantees to certain parties amounting to $57,488,000 (2016: $26,744,000). These financial guarantees are only provided in exceptional circumstances and are subject to specific board approval. The maximum credit risk exposure of the financial guarantees is the maximum amount that could be paid if the guarantee is called on.

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

(c) Liquidity risk

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

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

Maturities of financial liabilities

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

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

For the financial guarantee and building society credit commitments as at 30 June 2017 (refer to notes 26 and 27), as the probability and value of the obligation that may be called on is unpredictable; it is not practical to state the timing of any potential payment. However, there is a contractual obligation for the Group to provide the funds when they are called upon by the counterparties.

(c) Liquidity risk *continued*

	Less than 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
At 30 June 2017						
Trade and other payables	**140,153**	**–**	**–**	**–**	**–**	**140,153**
Interest bearing liabilities						
AU Bonds	**6,247**	**6,247**	**280,714**	**–**	**–**	**293,208**
Subordinated capital notes	**1,007**	**1,007**	**5,718**	**31,489**	**–**	**39,221**
Development finance loan	**17**	**29**	**598**	**–**	**–**	**644**
Call deposits	**362,321**	**–**	**–**	**–**	**–**	**362,321**
Term deposits	**255,443**	**48,185**	**22,602**	**–**	**–**	**326,230**
Mortgage offset savings accounts	**83,565**	**–**	**–**	**–**	**–**	**83,565**
Retirement Village Investment Notes	**21,867**	**3,758**	**29,771**	**–**	**–**	**55,396**
Loan payable to related entity	**5,148**	**–**	**–**	**–**	**–**	**5,148**
	735,615	**59,226**	**339,403**	**31,489**	**–**	**1,165,733**
Benefit fund policy liabilities	**106,100**	**246,914**	**–**	**–**	**1,763,450**	**2,116,464**
Other liabilities	**281**	**–**	**1,621**	**–**	**852,953**	**854,855**
Total liabilities	**982,149**	**306,140**	**341,024**	**31,489**	**2,616,403**	**4,277,205**
At 30 June 2016						
Trade and other payables	114,705	–	–	–	–	114,705
Current tax liabilities	15,879	–	–	–	–	15,879
Interest bearing liabilities						
AU Bonds	6,247	6,247	293,208	–	–	305,702
Subordinated capital notes	1,007	1,007	6,750	33,224	–	41,988
Development finance loan	8,665	–	–	–	–	8,665
Call deposits	304,995	–	–	–	–	304,995
Term deposits	287,952	117,998	12,190	–	–	418,140
Mortgage offset savings accounts	77,710	–	–	–	–	77,710
Retirement Village Investment Notes	8,419	17,919	34,906	–	–	61,244
Loan payable to related entity	5,150	–	–	–	–	5,150
	700,145	143,171	347,054	33,224	–	1,223,594
Benefit fund policy liabilities	90,536	89,074	–	–	1,776,420	1,956,030
Other liabilities	4,160	–	–	–	692,298	696,458
Total liabilities	925,425	232,245	347,054	33,224	2,468,718	4,006,666

20 Financial risk management *continued*

(d) Capital risk management

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

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

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

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

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the 2017 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, and the economic, operational and capital needs of the business.

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

(e) Insurance risk

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

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

Product design

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

Claims management

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

Insurance risk and experience monitoring

The Group's Risk Committee and the board review the monthly financial and operational results, including insurance operating measures and prudential capital requirements. The insurance risks and experience for the industry are also monitored by the Australian Prudential Regulation Authority (APRA).

Prudential capital requirements

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

Risk equalisation

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

Concentration of insurance risk

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

Ability to vary premium rates

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

Preventative health programs

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

(f) Operational risk management

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

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

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

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

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

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

Group structure

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole. In particular, there is information about:

- principal subsidiaries included in the consolidated financial statements,
- parent entity, health insurance and building society financial information, and
- reconciliation of profit attributable to members of Australian Unity Limited.

21 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the controlled entities. The table below lists the principal controlled entities. All these entities are wholly-owned by the Group and are incorporated in Australia.

Wholly-owned by the Parent entity

Australian Unity Advice Pty Ltd
Australian Unity Finance Limited
Australian Unity Funds Management Limited
Australian Unity Group Services Proprietary Limited
Australian Unity Health Care Pty Ltd
Australian Unity Health Limited
Australian Unity Investment Real Estate Ltd
Australian Unity Personal Financial Services Limited
Australian Unity Property Limited
Australian Unity Retirement Living Holding Pty Ltd
Australian Unity Retirement Living Investments Limited
Australian Unity Retirement Living Services Limited
Australian Unity Strategic Holdings Pty Limited
Australian Unity Strategic Investments Pty Ltd
Big Sky Building Society Limited
Big Sky Financial Planning Pty Ltd
Grand United Corporate Health Limited
Herston Pty Ltd
Lifeplan Australia Friendly Society Limited
Remedy Healthcare Group Pty Ltd

Wholly-owned by the controlled entities

Albert Road Development Manager Pty Ltd
Australian Unity Aged Care Investments Pty Ltd
Australian Unity Aged Care Trust #1
Australian Unity Aged Care Trust #2
Australian Unity Aged Care Trust #4
Australian Unity Aged Care Trust #5
Australian Unity Aurora Operations Trust
Australian Unity Bondi Trust
Australian Unity Campbell Place AC Land Trust
Australian Unity Campbell Place RV Land Trust
Australian Unity Care Services Pty Ltd
Australian Unity Carlton Aged Care Trust
Australian Unity Carlton Retirement Trust #1
Australian Unity Home Care Pty Ltd
Australian Unity Home Care Service #2 Pty Ltd
Australian Unity Home Care Service Pty Ltd
Australian Unity Investments Trust
Australian Unity Lilydale Development Trust
Australian Unity Peninsula Grange RACF Land Trust
Australian Unity Retirement Development Management Pty Ltd
Australian Unity Retirement Living Holdings Pty Ltd
Australian Unity Retirement Living Management Pty Ltd
Australian Unity Retirement Village Trust #1
Australian Unity Retirement Village Trust #2
Australian Unity Retirement Village Trust #5
Australian Unity Trustees Ltd
Better Home Care Pty Ltd
Campbell Place Development Manager Pty Ltd
Certainty Financial Pty Ltd
Herston Development Company Pty Ltd
Rathdowne Place Residences Project Manager Pty Ltd
The Australian Unity Mornington Development Trust
The Australian Unity Sienna Grange Development Trust
The Australian Unity Victoria Grange Development Trust
The Governor's Retirement Resort Pty Ltd
Victoria Grange Sub-Trust

22 Parent entity financial information

(a) Summary financial information

The individual financial statements for the Parent entity show the following aggregate amounts:

	2017 $'000	2016 $'000
Balance sheet		
Cash and cash equivalents	**22,262**	28,452
Other current assets	**48,205**	22,569
Current assets	**70,467**	51,021
Non-current assets	**784,694**	775,788
Total assets	**855,161**	826,809
Current liabilities	**19,123**	35,028
Non-current liabilities	**250,932**	254,900
Total liabilities	**270,055**	289,928
Members' balances	**255,625**	255,625
Reserves	**(496)**	–
Retained earnings	**329,977**	281,256
Total equity	**585,106**	536,881
Profit for the year	**48,721**	33,074
Total comprehensive income for the year	**48,721**	33,074

(b) Guarantees entered into by the Parent entity

The Parent entity provides a financial guarantee of up to $5 million for computer equipment lease transactions entered into by a wholly-owned subsidiary company. This guarantee will expire in October 2017.

(c) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2017 and 2016.

(d) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2017 and 2016.

23 Health insurance financial information

The disclosures below relate only to the health insurance activities of the relevant controlled entities and do not therefore include the non-insurance activities of the healthcare businesses.

(a) Details of income and expenses

	2017 $'000	2016 $'000
Revenue		
Premium revenue	**880,351**	833,642
Outwards reinsurance expense	**(36,566)**	(29,330)
Net premium revenue	**843,785**	804,312
Expenses		
Claims expense	**(733,727)**	(706,792)
Reinsurance recoveries	**16,070**	13,154
Risk equalisation	**30,841**	35,372
State levies	**(5,817)**	(5,559)
Net claims expense	**(692,633)**	(663,825)
Gross underwriting result	**151,152**	140,487
Other revenue	**3,159**	2,655
Management expenses		
Commission	**(19,467)**	(16,971)
Employee benefit expense	**(35,871)**	(38,388)
Marketing	**(7,482)**	(5,740)
Technology	**(10,716)**	(10,457)
Other management expenses	**(22,302)**	(23,521)
Total management expenses	**(95,838)**	(95,077)
Net underwriting result	**58,473**	48,065
Investment income	**13,888**	13,883
Finance costs	**(3,641)**	(3,403)
Profit before income tax	**68,720**	58,545
Income tax expense	**(20,151)**	(15,887)
Profit after income tax	**48,569**	42,658

(b) Net Risk Equalisation Special Account (RESA) receivable

	2017 $'000	2016 $'000
Movement in net RESA receivable		
Balance at the beginning of the financial year	**6,809**	7,591
Net RESA raised during the year	**30,841**	35,373
Net RESA received during the year	**(29,046)**	(36,155)
Balance at the end of the financial year	**8,604**	6,809

(c) Outstanding claims provision

	2017 $'000	2016 $'000
Outstanding claims – central estimate of the expected present value of future payments for claims incurred	**62,237**	56,571
Risk margin	**6,056**	5,383
Claims handling costs	**1,546**	1,382
Gross outstanding claims liability	69,839	63,336
Movement in the gross outstanding claims provision (current liabilities)		
Balance at the beginning of the financial year	**63,336**	58,556
Claims incurred during the year	**740,044**	710,176
Claims paid during the year	**(727,209)**	(701,979)
Movement in other components	**(6,332)**	(3,417)
Balance at the end of the financial year	69,839	63,336

The expected future payments for claims incurred are expected to be settled within one year and as such the undiscounted value approximates their present value.

The risk margin of 9.5% (2016: 9.3%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2016: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments that is not explained by the model adopted to determine the central estimate and the results are assumed to be indicative of future volatility.

The outstanding claims estimates are based on the hospital and ancillary valuation classes. Estimated outstanding claims are calculated using two methods. For May 2017 and earlier, a chain ladder method is used; adjustments are then applied to reflect changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Company's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods. For the service month of June 2017, the estimate is based on the business, latest forecast of incurred claims costs. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and developing patterns are consistent with past experience.

The weighted average expected term for settlement of claims from the end of the reporting period is estimated to be 1.87 months (2016: 1.84 months).

Impact of changes in key variables

The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. A 10%increase/decrease in the central estimate would result in a $4.36 million decrease/increase to profit after tax (2016: $3.96 million) and a $4.36 million decrease/increase to equity (2016: $3.96 million). A 10 percent movement in other key outstanding claims variables, including risk margin and claims handling costs would result in an insignificant decrease/increase to profit after tax and equity.

(d) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2017 (2016: $nil) at a 75% (2016: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

24 Building society financial information

The disclosures below relate only to the building society activities of the wholly owned subsidiary, Big Sky Building Society Limited as an individual entity.

(a) Financial performance summary

	2017 $'000	2016 $'000
Interest income	**33,687**	33,504
Interest expense	**(15,346)**	(15,317)
Net interest income	**18,341**	18,187
Non-interest income	**2,897**	3,438
Total income	**21,238**	21,625
Other operating expenses	**(18,858)**	(16,748)
Profit before income tax	**2,380**	4,877
Income tax expense	**(716)**	(1,468)
Profit after income tax	**1,664**	3,409

(b) Financial position summary

	2017 $'000	2016 $'000
Cash and cash equivalents	**13,149**	31,157
Financial assets at fair value through profit or loss	**30,590**	39,165
Other financial assets at amortised cost	**79,421**	–
Held-to-maturity investments	**–**	57,125
Loans and advances	**698,013**	731,272
Other assets	**6,178**	2,844
Total assets	**827,351**	861,563
Interest bearing liabilities	**761,476**	795,691
Other liabilities	**6,096**	7,771
Total liabilities	**767,572**	803,462
Net assets (Equity)	**59,779**	58,101

(c) Capital adequacy

	2017 $'000	2016 $'000
Reserves and retained earnings	**70,281**	58,101
Less regulatory prescribed adjustments	**(4,498)**	(836)
Regulatory capital base	**65,783**	57,265
Risk weighted exposures	**402,144**	406,672
Capital adequacy ratio	**16.36%**	14.08%

25 Reconciliation of profit attributable to members of Australian Unity Limited

	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
For the year ended 30 June 2017			
Revenue and other income	**1,498,200**	**–**	**1,498,200**
Direct life insurance premium revenue	**–**	**632**	**632**
Outwards reinsurance expense	**–**	**(245)**	**(245)**
Deposits received – investment contracts with DPF*	**–**	**179,118**	**179,118**
Investment income	**–**	**68,005**	**68,005**
Other	**–**	**162**	**162**
Total revenue and other income	**1,498,200**	**247,672**	**1,745,872**
Life insurance claims expense	**–**	**1,659**	**1,659**
Benefits and withdrawals paid – investment contracts with DPF*	**–**	**219,154**	**219,154**
Expenses, excluding finance costs	**1,442,135**	**14,825**	**1,456,960**
Total expenses, excluding finance costs	**1,442,135**	**235,638**	**1,677,773**
Finance costs	**(20,644)**	**–**	**(20,644)**
Share of net losses of joint ventures	**(2,189)**	**–**	**(2,189)**
Profit before income tax	**33,232**	**12,034**	**45,266**
Income tax benefit/(expense)	**13,616**	**(12,034)**	**1,582**
Profit after income tax	**46,848**	**–**	**46,848**
For the year ended 30 June 2016			
Revenue and other income	1,245,737	–	1,245,737
Direct life insurance premium revenue	–	540	540
Outwards reinsurance expense	–	(258)	(258)
Deposits received – investment contracts with DPF*	–	43,837	43,837
Investment income	–	100,500	100,500
Other	–	3,931	3,931
Total revenue and other income	1,245,737	148,550	1,394,287
Life insurance claims expense	–	1,800	1,800
Benefits and withdrawals paid – investment contracts with DPF*	–	98,276	98,276
Expenses, excluding finance costs	1,186,308	30,562	1,216,870
Total expenses, excluding finance costs	1,186,308	130,638	1,316,946
Finance costs	(21,095)	–	(21,095)
Share of net losses of joint ventures	(1,074)	–	(1,074)
Profit before income tax	37,260	17,912	55,172
Income tax benefit/(expense)	(1,698)	(17,912)	(19,610)
Profit after income tax	35,562	–	35,562

*DPF = Discretionary Participating Feature

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.

26 Commitments

(a) Capital commitments

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

	2017 $'000	2016 $'000
Payable within one year:		
Investment property	**8,268**	11,212
Total capital commitments	**8,268**	11,212

(b) Lease commitments: where the Group is the lessee

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

	2017 $'000	2016 $'000
Within one year	**13,068**	11,380
Later than one year but not later than five years	**23,295**	19,421
Later than five years	**638**	1,816
	37,001	32,617

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 2.59 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(c) Credit related commitments

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

	2017 $'000	2016 $'000
Irrevocable approved but undrawn loans	**9,683**	10,991
Revocable loans with balances available for redraw	**44,698**	40,591
Revocable undrawn lines of credit, credit cards and overdrafts	**24,972**	28,739
	79,353	80,321

27 Contingencies

Contingent liabilities

As at 30 June 2017, the Group had contingent liabilities in relation to future development activities of the Herston Quarter site in Brisbane, Queensland totalling to $78,830,000.

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

Guarantees

Guarantee for computer equipment

The Parent entity provides a financial guarantee of up to $5 million for computer equipment lease transactions entered into by a wholly owned subsidiary company. As at 30 June 2017, there were $14,000 (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 $57,474,000 (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 30 June 2017.

28 Events occurring after the reporting period

The board is not aware of any matter or circumstance arising since 30 June 2017 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.

29 Related party transactions

(a) Parent entity

Australian Unity Limited is the parent entity and the ultimate parent entity of the Australian Unity Group.

(b) Subsidiaries

Interests in subsidiaries are set out in note 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 30.

(d) Transactions and balances with related parties

Transactions between the Group and related parties for the financial years ended 30 June 2017 and 2016 were as follows:

- Dividends received from joint ventures, $154,310 (2016: $1,080,550).
- Investment management fees charged by joint ventures, $3,345,958 (2016: $4,370,871).
- Commission, director fees and other costs charged to joint ventures, $819,978 (2016: $659,421).
- Performance fees charged by joint ventures, $730,219 (2016: $4,849,159).
- Donations to a related charity organisation, $323,406 (2016: $376,363).
- Rental income from related entity, $nil (2016: $177,668).
- Loans repaid by related entities, $14,893,749 (2016: Loans provided to related entities $28,887).
- Investment income from related entities, $15,598,049 (2016: $6,507,720).
- Transfers of retirement and aged care facility development rights to associates, $21,380,000 (2016: $nil).

Balances with related parties as at the end of the reporting period were as follows:

- Trade and other receivables from related entities as at 30 June 2017, $4,071,521 (2016: $14,164).
- Trade and other payables to related entities as at 30 June 2017, $698,863 (2016: $822,444).
- Loans receivable from related entities as at 30 June 2017, $16,452,391 (2016: $31,346,140).
- Loan payable to related entity as at 30 June 2017, $5,100,000 (2016: $5,100,000).
- Wholesale cash fund and financial assets at fair values through profit or loss managed by related entities are disclosed in notes 5 and 7.

Remedy Healthcare Group Pty Ltd has partnered with Transport Accident Commission (TAC) to establish a new healthcare pathway for TAC's injured clients. Mr Paul Kirk, a Non-Executive Director of the Group, is also a director of TAC. In the 2017 financial year, the Group earned $101,511 (2016: $nil) from its transactions with TAC. An amount of $21,064 was receivable from TAC as at 30 June 2017 (2016: $nil).

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

30 Key management personnel disclosures

(a) Key management personnel compensation

	2017 $	2016 $
Short term employee benefits	**6,391,442**	6,573,882
Post employment benefits	**254,435**	255,235
Long term benefits	**514,935**	688,183
	7,160,812	7,517,300

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

(b) Other transactions with key management personnel

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

31 Remuneration of auditors

PwC Australia is the external auditor for the 2017 financial year (2016: Ernst & Young Australia). During the year the following fees were paid or payable for services provided by the auditor of the Parent entity, its related practices and non-related audit firms:

(a) Audit and other assurance services

	2017 $	2016 $
PwC Australia (2016: Ernst & Young Australia)		
Audit and review of financial statements	**1,627,078**	1,201,833
Audit of regulatory returns	**281,847**	330,000
Total remuneration for audit and other assurance services	**1,908,925**	1,531,833
(b) Taxation and other services		
PwC Australia (2016: Ernst & Young Australia)		
Tax compliance services	**212,049**	190,000
Tax consulting services	**160,000**	925,000
Other services*	**1,220,832**	–
Total remuneration for taxation and other services	**1,592,881**	1,115,000
Total auditors' remuneration	**3,501,806**	2,646,833

* Other services included $827,728 that was related to the services provided before PwC Australia' appointment as auditor in October 2016.

It is Australian Unity Limited's policy to employ PwC Australia on assignments additional to their statutory audit duties only where PwC Australia' expertise and experience with Australian Unity Limited's business are essential to the efficient completion of the assignment; these assignments are principally the completion of tax returns. It is Australian Unity Limited's policy to seek competitive tenders for all major consulting projects.

32 Benefit fund policy liabilities

The Group's life insurance disclosures are set out below and reflect the operations of the benefit funds managed by the Group.

(a) Analysis of policy liabilities

	2017 $'000	2016 $'000
Life investment contract liabilities	**1,071,464**	858,016
Life insurance contract liabilities – guaranteed element	**945,048**	1,001,332
Life insurance contract liabilities – other	**592**	489
Unvested policyholder liabilities	**99,360**	96,193
Total policy liabilities	**2,116,464**	1,956,030
Expected to be realised within 12 months	**353,014**	179,610
Expected to be realised in more than 12 months	**1,763,450**	1,776,420
	2,116,464	1,956,030

There are no investment linked contracts where policy liabilities are subject to investment performance guarantees. There are no other contracts except as already disclosed in this note with a fixed or guaranteed termination value.

(b) Reconciliation of changes in policy liabilities

	2017 $'000	2016 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	**858,016**	796,482
Increase recognised in the profit or loss	**43,637**	9,429
Premiums recognised as a change in contract liabilities	**302,013**	131,694
Claims recognised as a change in contract liabilities	**(132,202)**	(79,589)
Balance at the end of the financial year	**1,071,464**	858,016
Life insurance contract liabilities		
Balance at the beginning of the financial year	**1,001,821**	1,039,577
Increase/(decrease) recognised in the profit or loss	**(56,181)**	(37,756)
Balance at the end of the financial year	**945,640**	1,001,821
Unvested policyholder liabilities		
Balance at the beginning of the financial year	**96,193**	61,573
Decrease recognised in the profit or loss	**3,167**	34,620
Balance at the end of the financial year	**99,360**	96,193
Net policy liabilities at the end of the financial year	**2,116,464**	1,956,030

32 Benefit fund policy liabilities *continued*

(c) Analysis of policy liability revenue and expenses

	2017 $'000	2016 $'000
Revenue and other income		
Total life insurance contract premium revenue	**179,750**	44,377
Reinsurance expense	**(245)**	(258)
Life insurance contract claims revenue	**179,505**	44,119
Interest income	**7,153**	5,281
Distribution income	**125,562**	70,707
Realised gains	**3,406**	6,843
Unrealised gains/(losses)	**(68,116)**	17,669
Other income	**162**	3,931
Total revenue from life insurance business	**247,672**	148,550
Expenses		
Total life insurance and participating contract claims expense	**220,813**	100,076
Life insurance contract claims expense	**220,813**	100,076
Management fees	**24,067**	23,779
Other expenses	**135**	490
Movement in life insurance contract liabilities	**(56,181)**	(37,756)
Movement in unvested policyholder liabilities	**3,167**	34,620
Movement in life investment contract liabilities	**43,637**	9,429
Total expenses from life insurance business	**235,638**	130,638

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2017. The actuarial report was prepared by the appointed actuary Mr Richard Land BCom FIAA, Representative of Mercer Consulting (Australia) Pty Ltd, AFS Licence #411770. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the *Life Insurance Act 1995* consistent with the relevant accounting standards.

Policy Liability Valuations for Defined Benefit Funds

The defined benefit funds comprise the following:

- Personal Risk Insurance Fund;
- Assurance Benefit Fund;
- Endowment and Funeral Fund (denoted as the Funeral Fund);
- Life Assurance Benefit Fund;
- Central Sick and Funeral Fund;
- Funeral and Ancillary Benefits Fund;
- Travel Protection Fund;
- Whole of Life Funeral Fund; and
- Accidental Death Benefits Fund, Adult Accident Fund and Student Accident Fund, collectively referred to as the "Accident Funds".

The policy liabilities for the defined benefit funds are determined in accordance with Prudential Standard LPS 340 issued by the Australian Prudential Regulation Authority ("APRA") under the *Life Insurance Act 1995*.

Policy liabilities are valued using the projection method (with the exception of the Personal Risk Insurance Fund, the Assurance Benefit Fund and the Accident Funds). Under the projection method, estimates of future cash flows (i.e. premiums, expenses, interest and benefits) are projected into the future. The policy liability is then calculated as the net present value of these projected cash flows. Allowance has been made for tax and fees where appropriate. The balance of the benefit fund represents unvested policyholder liabilities, which will ultimately be distributed to members or transferred to the management fund (depending on the benefit fund rules).

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2017 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012-14)[2]
Funeral Fund	**15.0**	**3.32%**	**0.70%**	**0%**	**2.62%**	**70%**
Life Assurance Benefit Fund	**10.0**	**2.67%**	**2.25%**	**30%**	**0.29%**	**75%**
Central Sick and Funeral Fund	**10.0**	**2.67%**	**2.00%**	**0%**	**0.67%**	**60%**
Funeral and Ancillary Benefit Fund	**14.0**	**2.96%**	**2.00%**	**0%**	**0.96%**	**100%**
Travel Protection Fund	**13.5**	**2.92%**	**2.00%**	**0%**	**0.92%**	**100%**
Whole of Life Funeral Fund	**11.0**	**2.74%**	**1.50%**	**0%**	**1.24%**	**100%**

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2016 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012-14)[2]
Assurance Benefit Fund	13.5	2.29%	1.80%	30%	0.34%	100%
Funeral Fund	17.5	2.53%	0.70%	0%	1.83%	70%
Life Assurance Benefit Fund	11.0	2.10%	2.25%	30%	-0.11%	75%
Central Sick and Funeral Fund	11.0	2.10%	2.00%	0%	0.10%	60%
Funeral and Ancillary Benefit Fund	15.0	2.40%	2.00%	0%	0.40%	100%
Travel Protection Fund	14.0	2.33%	1.50%	0%	0.83%	100%
Whole of Life Funeral Fund	12.5	2.21%	1.50%	0%	0.71%	100%

Notes:

1 The zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term.

2 ALT 2012-14 refers to Australian Life Tables (Male and Female) 2012-2014.

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

The following additional assumptions apply:

- For the Funeral and Ancillary Benefit Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Benefit Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2016: 2.5 percent) per annum; and
- Also for the Funeral and Ancillary Benefit Fund, an assumption for reinstatement of previously lapsed members has been adopted, based on past experience.
- For the Travel Protection Fund, the assumption is that 4.0 percent (2016: 4.0 percent) of deaths will result in claims and the average claim amount is $1,000 (2016: $1,000) inflating at 2.5 percent (2016: 2.5 percent) per annum.
- In addition, policy liabilities are held in the Management Fund in relation to non-contactable members of the Assurance Benefit Fund and the Funeral Fund for which insufficient data exists to accurately calculate a member level liability.

32 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

For the remaining defined benefit funds, policy liabilities are valued using the accumulation method. For the Personal Risk Insurance Fund the policy liability is equal to 100% of the annual premium. For the Accidental Death Benefits Fund the policy liability is equal to 50% of the annual premium. For the Adult Accident Fund and Student Accident Fund the policy liability is equal to the unearned premium plus the outstanding claim liability, determined by reference to the past delay pattern of claim payments. Members of the Assurance Benefit Fund have voted to terminate the fund and this is expected to take effect prior to the end of August. As such, the policy liabilities are set equal to the termination values advised to members.

Policy Liability Valuation for Defined Contribution Funds

The defined contribution funds comprise the following:

- Capital Guaranteed Bond;
- Capital Guaranteed Mortgage Bond;
- Grand Bonds Assurance Fund;
- Capital Guaranteed Funeral Fund (Non Taxable);
- Capital Guaranteed Funeral Fund (Taxable);
- Capital Secure Funeral Fund;
- Bonus Accumulation Fund;
- Bonus Bond;
- Capital Guaranteed Deferred Annuity Fund;
- Community Bond Fund;
- Education Savings Plan;
- Flexishield Bond Fund;
- NextGen Capital Guaranteed Fund;
- Telecom Rollover Fund;
- Funeral Bond Fund;
- Prepaid Funeral Fund;
- Funeral Fund No. 2; and
- Tax Minimiser Funeral Fund.

The policy liabilities for defined contribution funds are determined in accordance with Prudential Standard LPS 340 issued by APRA under the *Life Insurance Act 1995.*

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

The Grand Bonds Assurance Fund has an additional death benefit and bonus guarantee. The liability for bonus guarantees has been evaluated by inspecting individual policies that may give rise to bonus guarantees. The liability for death benefits was determined using the projection method in which estimates of future death benefit payouts are projected into the future. The liability is then calculated as the net present value of these projected death payouts. Allowance has been made for tax and fees where appropriate.

In addition to the above, for the Flexishield Bond Fund and the Community Bond Fund a small liability for early death risk is maintained. A deferred tax liability in respect of future termination bonuses is included in the policy liability for the Education Savings Plan.

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds but using a yield curve rather than a risk-free rate for the average liability duration. The key assumptions for the policy liability calculations for the funeral funds at 30 June 2017 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012-14)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	**8.0**	**0%**	**3.00%**	**0%**	**0%**	**105%**
Capital Guaranteed Funeral Fund (Taxable)	**10.0**	**0%**	**3.00%**	**30%**	**0%**	**115%**
Capital Secured Funeral Fund	**7.0**	**0%**	**3.00%**	**0%**	**0%**	**100%**
Funeral Bond Fund	**6.5**	**0%**	**1.50%**	**0%**	**0%**	**100%**
Prepaid Funeral Fund	**6.5**	**0%**	**1.50%**	**0%**	**0%**	**110%**
Funeral Fund No 2 – Non Taxable	**8.5**	**0%**	**2.50%**	**0%**	**0%**	**110%**
Funeral Fund No 2 – Taxable	**8.5**	**0%**	**2.50%**	**30%**	**0%**	**110%**
Tax Minimiser Funeral Fund	**9.0**	**0%**	**1.50%**	**30%**	**0%**	**150%**

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2016 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012-14)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	8.5	2.36%	2.83%	0%	-0.47%	110%
Capital Guaranteed Funeral Fund (Taxable)	10.5	2.47%	2.83%	30%	-0.25%	115%
Capital Secured Funeral Fund	7.5	2.29%	3.00%	0%	-0.71%	100%
Funeral Bond Fund	7.0	2.25%	1.50%	0%	0.75%	100%
Prepaid Funeral Fund	7.5	2.29%	1.50%	0%	0.79%	110%
Funeral Fund No 2 – Non Taxable	9.0	2.38%	2.23%	0%	0.15%	110%
Funeral Fund No 2 – Taxable	9.0	2.38%	2.23%	30%	0.10%	110%
Tax Minimiser Funeral Fund	9.5	2.41%	1.50%	30%	0.63%	150%

Notes
1 The zero coupon Commonwealth Government Security yield curve plus illiquidity premium have been used to discount cash flows.
2 ALT2012-14 refers to Australian Life Tables (Male and Female) 2012-2014.

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

For the Capital Guaranteed Funeral Fund (Taxable), Tax Minimiser Funeral Fund and Funeral Benefits Fund No. 2, a deferred tax benefit in respect of future termination bonuses is added to the policy liability.

Taxation

Rates of taxation in Australia are assumed to continue at current levels, in accordance with legislation known at the valuation date.

Surrender values

Where a surrender option exists, surrender values are based on the provisions specified within the policy contract. Surrender values assumed are those current at the end of each reporting period. Discontinuance rates are based on the fund's experience.

32 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

Profit carriers

Each benefit fund contributes to the management fund via any fee transfers authorised in the benefit fund rules and transfers of a part of surplus disclosed in authorised fund valuations. Profit is equivalent to the authorised surplus transfers to the management fund and therefore profit carriers are not applicable. For the investment account funds there is no provision in the funds' rules for any surplus to be transferred to the management fund. The management fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

Restrictions on assets

Assets held in benefit funds for the benefit of policyholders can only be used in accordance with *Life Insurance Act 1995* regulations.

Assets backing policy liabilities

Assets backing benefit fund policy liabilities are measured at fair value through profit or loss. All of the assets backing life insurance and investment contract liabilities are included within the benefit funds and are separately identifiable.

Future participating benefits

The bonus rates assumed are those supported by policy liabilities. The bonus rates are based on investment returns net of ongoing expenses and taxation after allowing for a suitable safety margin.

The level of future bonus rates are not guaranteed. Given the nature of the underlying assets held by the various benefit funds the level of any future bonuses declared will be subject to the performance of the investment markets and assets that the benefit funds are invested in.

Sensitivity analysis

The Group has no material sensitivity analysis to disclose. If experience varies from expectations then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts, except for the Personal Risk Insurance Fund (PRIF). As the Group maintains sufficient unallocated surplus to cover fluctuations in experience, there is no impact on equity.

Effects of changes in assumptions

There are no material changes in actuarial assumptions which affect the valuation of policy liabilities at 30 June 2017. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

(e) Nature of risks arising from insurance contracts

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

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

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

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

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

Concentrations

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

Interest rate risk

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

Credit risk

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

(f) Solvency and capital adequacy information

The Group is required by APRA to hold a prudential capital requirement over and above their policy liabilities, as laid down by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118. These standards have been met for all benefit funds as at 30 June 2017 and 2016.

For each benefit fund subject to a solvency requirement, the figures in note 33 below represent the ratio of the solvency reserve requirement to the assets available for solvency.

The Group has maintained adequate levels of capital in accordance with the prudential standards specified by the *Life Insurance Act 1995.*

(g) Disaggregated information – Benefit Funds

Note 33 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

33 Disaggregated information – Benefit funds

(a) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2017							
Non-investment linked benefit funds – Life insurance contracts	**387**	**(2,399)**	**2**	**1,659**	**(3,442)**	**(227)**	**–**
Investment linked benefit funds – Life investment contracts with DPF*	**179,118**	**4,784**	**228**	**219,154**	**(33,046)**	**(1,978)**	**–**
Investment contracts without DPF*	**–**	**65,620**	**(68)**	**–**	**51,313**	**14,239**	**–**
Total	**179,505**	**68,005**	**162**	**220,813**	**14,825**	**12,034**	**–**
30 June 2016							
Non-investment linked benefit funds – Life insurance contracts	282	8,440	37	1,800	6,450	509	–
Investment linked benefit funds – Life investment contracts with DPF*	43,837	72,181	3,722	98,276	7,481	13,983	–
Investment contracts without DPF*	–	19,879	172	–	16,631	3,420	–
Total	44,119	100,500	3,931	100,076	30,562	17,912	–

*DPF = Discretionary Participating Features

	Assets		Liabilities		Equity
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	$'000
30 June 2017					
Non-investment linked benefit funds – Life insurance contracts	**57,644**	**1,267**	**58,432**	**479**	**–**
Investment linked benefit funds – Life investment contracts with DPF*	**953,370**	**32,974**	**986,568**	**(224)**	**–**
Investment contracts without DPF*	**1,043,832**	**51,745**	**1,071,464**	**24,113**	**–**
Total	**2,054,846**	**85,986**	**2,116,464**	**24,368**	**–**
30 June 2016					
Non-investment linked benefit funds – Life insurance contracts	62,651	1,728	62,845	1,534	–
Investment linked benefit funds – Life investment contracts with DPF*	864,843	180,531	1,035,169	10,205	–
Investment contracts without DPF*	845,451	34,133	858,016	21,568	–
Total	1,772,945	216,392	1,956,030	33,307	–

Benefit Fund investments assets include all their income producing assets, principally Cash and cash equivalents and Financial assets at fair value through profit or loss.

*DPF = Discretionary Participating Features

(b) Non-investment linked benefit funds – Life insurance contracts

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2017							
Assurance benefit fund	**–**	**(352)**	**–**	**136**	**(334)**	**(154)**	**–**
Central sick and funeral fund	**–**	**(198)**	**–**	**218**	**(416)**	**–**	**–**
Funeral and ancillary benefits fund	**6**	**(841)**	**–**	**570**	**(1,405)**	**–**	**–**
Funeral fund	**–**	**(593)**	**–**	**208**	**(801)**	**–**	**–**
Life assurance benefit fund	**–**	**(397)**	**–**	**484**	**(768)**	**(113)**	**–**
Other	**381**	**(18)**	**2**	**43**	**282**	**40**	**–**
Total	**387**	**(2,399)**	**2**	**1,659**	**(3,442)**	**(227)**	**–**
30 June 2016							
Assurance benefit fund	–	1,453	–	630	757	66	–
Central sick and funeral fund	–	796	–	149	647	–	–
Funeral and ancillary benefits fund	7	2,303	–	657	1,653	–	–
Funeral fund	–	2,063	–	193	1,869	1	–
Life assurance benefit fund	–	1,635	–	131	1,054	450	–
Other	275	190	37	40	470	(8)	–
Total	282	8,440	37	1,800	6,450	509	–

	Assets		Liabilities		Equity	Capital in excess of prescribed capital amount	Capital adequacy multiple
	Investments $'000	Other $'000	Life insurance $'000	Other $'000	$'000	$'000	
30 June 2017							
Assurance benefit fund	**9,474**	**82**	**9,411**	**145**	**–**	**1,869**	**16**
Central sick and funeral fund	**6,666**	**130**	**6,785**	**11**	**–**	**651**	**8**
Funeral and ancillary benefits fund	**13,342**	**389**	**13,704**	**27**	**–**	**–**	**1**
Funeral fund	**13,298**	**195**	**13,488**	**5**	**–**	**571**	**2**
Life assurance benefit fund	**12,655**	**248**	**12,809**	**94**	**–**	**374**	**5**
Other	**2,209**	**223**	**2,235**	**197**	**–**	**477**	**–**
Total	**57,644**	**1,267**	**58,432**	**479**	**–**	**3,942**	
30 June 2016							
Assurance benefit fund	10,617	(45)	9,907	665	–	2,417	–
Central sick and funeral fund	7,321	–	7,311	10	–	697	–
Funeral and ancillary benefits fund	14,904	677	15,323	258	–	–	–
Funeral fund	14,156	84	14,290	(50)	–	–	–
Life assurance benefit fund	14,091	(16)	13,837	238	–	336	–
Other	1,562	1,028	2,177	413	–	388	–
Total	62,651	1,728	62,845	1,534	–	3,838	

33 Disaggregated information – Benefit funds *continued*

(c) Investment linked benefit funds – Life investment contracts with discretionary participating features (DPF)

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2017							
Bonus accumulation fund	**1,074**	**1,644**	**–**	**21,326**	**(19,168)**	**560**	**–**
Capital guaranteed bond	**133**	**1,787**	**–**	**11,839**	**(10,055)**	**136**	**–**
Funeral fund no 2	**1,348**	**963**	**185**	**16,826**	**(13,622)**	**(708)**	**–**
NextGen investments capital guaranteed fund	**115,192**	**1,907**	**–**	**119,432**	**(2,726)**	**393**	**–**
Tax minimiser funeral fund	**57,677**	**(4,274)**	**–**	**20,255**	**35,363**	**(2,215)**	**–**
Other	**3,694**	**2,757**	**43**	**29,476**	**(22,838)**	**(144)**	**–**
Total	**179,118**	**4,784**	**228**	**219,154**	**(33,046)**	**(1,978)**	**–**
30 June 2016							
Bonus accumulation fund	310	2,105	–	12,844	(11,124)	695	–
Capital guaranteed bond	241	2,019	–	12,594	(10,543)	209	–
Funeral fund no 2	1,115	25,124	2,971	17,260	7,468	4,482	–
NextGen investments capital guaranteed fund	4,869	1,297	–	8,600	(2,635)	201	–
Tax minimiser funeral fund	32,744	22,426	–	18,307	30,951	5,912	–
Other	4,558	19,210	751	28,671	(6,636)	2,484	–
Total	43,837	72,181	3,722	98,276	7,481	13,983	–

	Assets		Liabilities		Equity
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	$'000
30 June 2017					
Bonus accumulation fund	**80,768**	**173**	**80,713**	**228**	**–**
Capital guaranteed bond	**80,324**	**39**	**80,055**	**308**	**–**
Funeral fund no 2	**197,639**	**11,815**	**209,422**	**32**	**–**
NextGen investments capital guaranteed fund	**61,458**	**1,144**	**61,612**	**990**	**–**
Tax minimiser funeral fund	**272,159**	**12,329**	**286,909**	**(2,421)**	**–**
Other	**261,022**	**7,474**	**267,857**	**639**	**–**
Total	**953,370**	**32,974**	**986,568**	**(224)**	**–**
30 June 2016					
Bonus accumulation fund	101,260	(101)	100,699	460	–
Capital guaranteed bond	91,559	71	91,457	173	–
Funeral fund no 2	214,054	18,100	227,386	4,768	–
NextGen investments capital guaranteed fund	64,699	121	64,604	216	–
Tax minimiser funeral fund	206,741	50,606	254,655	2,692	–
Other	186,530	111,734	296,368	1,896	–
Total	864,843	180,531	1,035,169	10,205	–

(d) Investment linked benefit funds – Investment contracts without discretionary participating features (DPF)

	Revenue		Expenses	Profit/(loss) for the year	
	Investment $'000	Other $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2017					
Education savings plan	**11,069**	**–**	**8,815**	**2,254**	**–**
Growth investment	**1,866**	**–**	**1,597**	**269**	**–**
Managed investment	**2,679**	**–**	**2,296**	**383**	**–**
NextGen investments	**37,420**	**–**	**28,837**	**8,583**	**–**
Select strategies	**9,052**	**–**	**6,867**	**2,185**	**–**
Other	**3,534**	**(68)**	**2,901**	**565**	**–**
Total	**65,620**	**(68)**	**51,313**	**14,239**	**–**
30 June 2016					
Education savings plan	2,609	–	2,466	143	–
Growth investment	676	–	389	287	–
Managed investment	2,034	–	1,351	683	–
NextGen investments	7,762	–	7,052	710	–
Select strategies	3,480	–	2,742	738	–
Other	3,318	172	2,631	859	–
Total	19,879	172	16,631	3,420	–

	Assets		Liabilities		Equity
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	$'000
30 June 2017					
Education savings plan	**152,507**	**15,040**	**163,480**	**4,067**	**–**
Growth investment	**20,767**	**922**	**20,702**	**987**	**–**
Managed investment	**51,752**	**2,017**	**53,143**	**626**	**–**
NextGen investments	**617,617**	**24,210**	**632,234**	**9,593**	**–**
Select strategies	**110,109**	**7,289**	**111,894**	**5,504**	**–**
Other	**91,080**	**2,267**	**90,011**	**3,336**	**–**
Total	**1,043,832**	**51,745**	**1,071,464**	**24,113**	**–**
30 June 2016					
Education savings plan	132,269	9,435	139,482	2,222	–
Growth investment	22,414	442	21,779	1,077	–
Managed investment	59,855	647	59,641	861	–
NextGen investments	414,361	5,583	412,893	7,051	–
Select strategies	128,917	1,198	123,171	6,944	–
Other	87,635	16,828	101,050	3,413	–
Total	845,451	34,133	858,016	21,568	–

34 Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value (including derivative instruments and insurance liabilities at present value of expected future cash flows), certain classes of property, plant and equipment and investment property.

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2016:

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]

The adoption of accounting standards noted above did not have material impact on the Group's financial statements.

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. In accordance with the transitional provisions in AASB 9, comparative figures were not restated. See note 35 for further details on the impact of the change in accounting policy.

(b) Principles of consolidation

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 34(f)).

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

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

(ii) Associates

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

(iii) Joint arrangements

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

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

(iv) Equity method

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 34(p).

(v) Changes in ownership interests

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

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

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

(vi) Life insurance benefit funds

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

(c) Benefit fund policy liabilities

(i) Classification

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

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

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

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

34 Summary of significant accounting policies *continued*

(c) Benefit fund policy liabilities *continued*

contract liabilities. Non-participating life investment contract liabilities are classified and accounted for under the requirements of AASB 9 *Financial Instruments* and are referred to in these financial statements as life investment contract liabilities.

Life investment contract liabilities include investment linked contracts in which the Group issues a contract where the benefit amount is directly linked to the market value of the investments held by the benefit fund. While the underlying assets are registered in the name of the benefit fund and the investment linked policyowner has no direct access to the specific assets, the contractual arrangements are such that the investment linked policyowner bears the risks and rewards of the benefit fund's investment performance. The Group derives fee income from the administration of the investment linked contracts.

Non-investment linked business is business in which the Group issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event.

(ii) Valuation

The fair value of life insurance contract liabilities are determined using a projection method. The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method. Further details of the actuarial assumptions used in the calculation of these policy liabilities are set out in note 32.

The unit linked funds are classified as life investment contract liabilities and measured at fair value. The contracts consist of a financial instrument and an investment management services element both of which are measured at fair value. The liability to policyholders is linked to the performance and value of the assets that back the liabilities. The liabilities are therefore the same as the fair value of the assets.

(iii) Claims expense

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

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

(d) Borrowing costs

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

(e) Borrowings

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

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

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

(f) Business combinations

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

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

(g) Cash and cash equivalents

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

(h) Deferred acquisition costs

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

Deferred acquisition costs are amortised on a straight line basis over a period in line with the average expected duration of the customer relationships to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The average expected duration of the customer relationships is reassessed annually.

(i) 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.

(j) Employee benefits

Employees engaged in the Group's operations are employed by subsidiary entities, Australian Unity Group Services Pty Ltd, Australian Unity Home Care Service Pty Ltd, Big Sky Building Society Limited and Lifeplan Australia Friendly Society Limited.

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

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

(ii) Long service leave

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

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Superannuation

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

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

34 Summary of significant accounting policies *continued*

(k) Financial guarantee contracts

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

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

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

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

(l) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(m) Goods and Services Tax (GST)

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

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

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

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

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

(n) Government grants and subsidies

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

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

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

(o) Health insurance

(i) Classification

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

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

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

(ii) Claims expense

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

(p) Impairment of assets

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

(q) Income tax

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

Australian Unity Limited (Parent entity) and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The Parent entity, as head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The Parent entity also recognises the current tax assets or liabilities, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

34 Summary of significant accounting policies *continued*

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 34(f). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains/(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

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

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

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

(iii) Management rights

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

(iv) Computer software

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

(s) Inventories

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

(t) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties other than the development sites are stated at fair value. Gains/(losses) arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise. Development sites are recognised at cost.

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

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

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset (refer to note 34(w)) and sold to a retirement village operator.

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

(u) Investments and other financial assets

Accounting policies applied from 1 July 2016

Classification

In line with AASB 9 requirements, 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.
- **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 and distributions 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.

Impairment

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.

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.

34 Summary of significant accounting policies *continued*

(u) Investments and other financial assets *continued*

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.

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.

Accounting policies applied prior to 1 July 2016

The Group has applied 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.

Classification

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

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

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

(ii) Loans and advances

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

(iii) Held-to-maturity investments

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

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

Recognition and derecognition

Purchases and sales of investments are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and there has been a transfer of substantially all the risks and rewards of ownership.

Measurement

Financial assets are initially measured at fair value plus, where they are not financial assets at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs of financial assets at fair value through profit or loss are expensed. Loans and advances and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains/(losses) arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the profit or loss in the period in which they arise.

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

Impairment

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

(i) Loans and advances

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

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

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

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

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

(ii) Held-to-maturity investments

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

(v) Leases

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

Group as a lessee

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

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

Group as a lessor

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

(w) Non-current assets held for sale

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

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

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

(x) Outstanding claims liability

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

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

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

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

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

(y) Property, plant and equipment

(i) Cost

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

(ii) Depreciation

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

34 Summary of significant accounting policies *continued*

(y) Property, plant and equipment *continued*

The expected useful lives are as follows:

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

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

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

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

(z) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(aa) Refundable lease deposits

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

(ab) Reinsurance and other recoveries receivable

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

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

(ac) Reserve for credit losses

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

(ad) Resident loans

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

(ae) Revenue recognition

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

(i) Aged care income

Income and government subsidies for the provision of aged care facilities and related services are recognised as the services are provided.

(ii) Deferred management fee

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

(iii) Dividends and distributions

Dividends and distributions are recognised when the Group's right to receive the income is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 34(p).

(iv) Fair value gains on investment properties

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

(v) Health insurance premium revenue

Health insurance premium revenue is recognised in the profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. The proportion of premium received or receivable not earned in the profit or loss at the end of each reporting period is recognised in the balance sheet as unearned premium liability.

(vi) Interest income

Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(vii) Life insurance premium revenue and fees

For life insurance contract liabilities and participating investment contract liabilities, premiums are recognised when the liabilities arising from them are created. For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities in the balance sheet (rather than being included in the profit or loss).

(viii) Other revenue

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

(ix) Property, funds management and administration fee income

Fee income is recognised based upon the contractual obligations of the Group to perform certain tasks.

(x) Rental income

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

(xi) Resident levies

Income from the provision of services to retirement village residents is recognised as the services are provided.

(xii) Retirement village and aged care facility management fees

Fees for the management of retirement villages and aged care facilities are recognised as management services are provided.

(af) Risk Equalisation Special Account

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

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

(ag) Segment reporting

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

(ah) Trade and other payables

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

(ai) Trade and other receivables

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

With the adoption of AASB 9, from 1 July 2016 the Group applies the simplified expected credit loss approach in place of the incurred credit loss. Under the expected credit loss approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

Prior to 1 July 2016, individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence of impairment. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators of impairment. The amount of the impairment provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. In measuring the present value, cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

(aj) Unexpired risk liability

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

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

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

34 Summary of significant accounting policies *continued*

(ak) New standards and interpretations not yet adopted

The following table sets out the new and amended accounting standards issued by the Australian Accounting Standards Board that are not mandatory for 30 June 2017 reporting period and have not been adopted by the Group.

AASB	Title	Operative Date *)
AASB 15	Revenue from contracts with customers	1 January 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15	
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	
AASB 16	Leases	1 January 2019
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	1 January 2017
AASB 17	Insurance contracts	1 January 2021

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

The Group's assessment on the potential impact of AASB 15, AASB 16 and IFRS 17 is set out in the following paragraphs. The other standard amendments noted above are not expected to have a material impact to the amounts reported in the consolidated financial statements. Where applicable the Group will apply these standards to the annual reporting periods beginning on or after the operative dates set out above.

(i) AASB 15 Revenue from contracts with customers

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. AASB 15 applies to an annual reporting period beginning on or after 1 January 2018 with early adoption permitted. Based on the current assessment on the existing transactions, the application of AASB 15 will not have a material impact on the consolidated financial statements. Further review will be conducted within the next twelve months, particularly relating to new contracts, in preparation for the Group to adopt this standard as it becomes applicable to the Group in the 2019 financial year.

(ii) AASB 16 Leases

AASB 16 will primarily affect accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (a right to use the leased item) and a financial liability to pay rentals for all lease contracts with a term of more than 12 months, unless the underlying asset is of low value. Accounting by lessors will not significantly change. The standard also requires enhanced disclosures. AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019. The Group has started to consider the extent of impact this standard will have on the Group's operations and its financial statements. The application of this standard will not have any impact on the gearing ratio covenant of the Australian Unity Bonds.

(iii) AASB 17 Insurance contracts

AASB 17 will replace AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. The standard is applicable to annual reporting periods beginning on or after 1 January 2021. The standard will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. It requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability with a period of one year or less. Claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability-weighted cash flows. Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time. The Group has started to consider the impact this standard will have on the Group's operations and its financial statements. The application of this standard will impact the health insurance and life insurance businesses of the Group.

(al) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost less any adjustments for impairment losses. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(am) Comparative information

During the year, the Group has reassessed the accounting for a health insurance business arrangement with a third party relating to the degree of insurance risk attaching to a part of the business. Accordingly the presentation of prior year balances has been restated. There is no impact to the Group's profit before or after income tax or to retained earnings as a result of this change. The impact has been to reduce the Group's health insurance net premium revenue by $29,096,000, health insurance net claims expense by $13,121,000 and other direct expenses by $13,320,000, and to increase other income by $2,655,000. The impact of this within the balance sheet has been to increase trade and other receivables by $7,038,000 and increase trade and other payables by the same amount.

35 Changes in accounting policies

As disclosed in note 34, 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 remain 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 solely of 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.

35 Changes in accounting policies *continued*

(ii) Financial liabilities

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

(iii) Hedge accounting

On the adoption of AASB 9, the Group's current hedging relationship qualifies as continuing hedge and the hedge accounting remained unchanged.

(iv) 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 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.

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	6	Amortised cost	Amortised cost	768,462	757,409
Financial assets at fair value through profit or loss (FVPL)	Financial assets at FVPL	7	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 solely of 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.

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 – Other financial assets 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)**

35 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**

DIRECTORS' DECLARATION

30 JUNE 2017

In the directors' opinion:

(a) the financial statements and notes set out on pages 60 to 132 are in accordance with the *Corporations Act 2001 (Cth)*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 34; and

(c) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

South Melbourne

30 August 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

30 JUNE 2017

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Independent auditor's report

To the members of Australian Unity Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

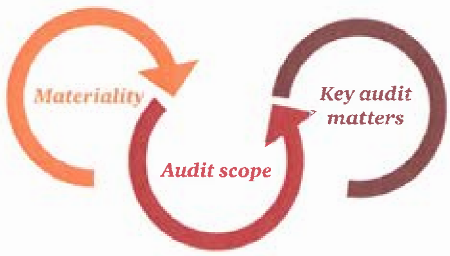
Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit, we used overall Group materiality of $6 million which represents approximately 1% of Members' Funds of the Group.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Members' Funds because, in our view, it is the key financial statement metric used by the primary users of the financial report.
- We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted balance sheet benchmarks for determining materiality.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is structured into six operating segments, being Health Insurance, Healthcare Services, Independent & Assisted Living (IAL), Personal Financial Services, Wealth, and Corporate Functions and Eliminations.
- We audited the most financially significant entities in the Health Insurance, IAL and Wealth segments.
- We performed an audit of Australian Unity Group Services Proprietary Limited, a subsidiary within the Corporate Functions and Eliminations segment, which provides payroll, accounts payable and corporate treasury services to the Group.
- We also performed specific risk-focused audit procedures on selected account balances of entities across the Group.
- At a Group level, we performed audit procedures over the consolidation process and the preparation of the financial report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. Amongst other relevant topics, we communicated the following key audit matters to the Audit and Compliance Committee:

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties *(Refer to note 13 in the financial report)* Investment properties consist of the Group's interest in retirement village independent living units and development sites. At 30 June 2017 the carrying value of the Group's investment properties was $976.8 million. Investment properties are carried at fair value. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property impact fair values. The value of investment properties is dependent on the terms of the residents' contracts and the inputs to the Group's valuation model ("the model"). Amongst others, the following assumptions are key in establishing fair value: • Discount rate • Average length of stay • Property growth rate As at 30 June 2017, the Group engaged an independent valuation expert to review the key assumptions used in the model. We considered this a key audit matter because of the: • Relative size of the investment property balance to net assets and related valuation movements • Sensitivity of investment property valuations to changes in key inputs / assumptions.	Our audit procedures over the valuation of investment properties included the following: • We assessed the valuation methodology, inputs and key assumptions used in the model for the retirement village independent living units and development sites. • For a sample of contracts with residents ("resident contracts") across the portfolio, we compared the key inputs used in the model to underlying contracts. We found that the key inputs used in the model were materially consistent with the sampled resident contracts. • For the independent review of key valuation assumptions performed by the valuation expert, we performed the following procedures, amongst others: – Assessed the expert's independence, experience, competency and the results of their procedures. – Read the expert's terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to their valuation. – Compared the key assumptions used in the expert's valuation report to those used in the model.

Revenue recognition: Revenue to provide services in IAL and revenue from developments

(Refer to note 2 in the financial report)

Revenue to provide services in IAL

Revenue to provide services relates to government subsidies received and is recognised as the relevant services are provided by the Group.

We considered this a key audit matter due to the high volume of revenue transactions and the possible uncertainty around determining when contractual service obligations under the funding agreements have been achieved.

Revenue from developments

Revenue from developments relates to development activities within IAL and Wealth and is recognised based on the contractual obligations in place.

We considered the recognition of this revenue to be a key audit matter because judgement is required by the Group to estimate:

- when the risks and rewards of ownership of the developments are transferred between parties
- the extent to which economic benefits will flow to the Group
- the stage of completion of the development activity
- total contract revenue and costs
- project completion dates.

For revenue to provide services in IAL, we performed the following procedures amongst others:

- Read a sample of executed government funding agreements and agreed the funding received by the Group to the supporting bank statements.
- Performed testing on a sample of revenue transactions by sighting evidence of completed service hours and delivery of contractual obligations.
- Calculated the proportion of services performed by the Group to the total services yet to be performed and compared this to the Group's estimate of revenue recognised at 30 June 2017.

For revenue from developments, we performed the following procedures amongst others:

- Read key contracts relating to a sample of developments, including the related funding agreements, and agreed the funding received per the relevant agreements to supporting bank statements.
- For a sample of developments, we considered the Group's estimate of the revenue recognised based on the terms of the relevant agreements and the stage of completion of development activity as recorded by the Group. We assessed the stage of completion with reference to the achievement of contractual key milestones.

Valuation of intangible assets

(Refer to note 14 in the financial report)

The Group had $366.2m of intangible assets at 30 June 2017. $187.1m of this related to goodwill and a further $35.9m related to management rights and customer contracts which had been acquired as part of historical acquisitions which were assessed by the Group to have an indefinite useful life. Australian Accounting Standards require an assessment, at least annually, to establish whether goodwill and indefinite lived intangible assets should continue to be recognised or if any impairment is required.

The Group's impairment assessment is performed at the level of the cash generating unit (CGU) to which the goodwill or intangible asset with indefinite useful life can be allocated.

The impairment assessment relied on the calculation of the value-in-use for each of the CGUs. This calculation was based on estimated future cash flows for each CGU discounted at a rate of return.

We considered this to be a key audit matter because the:

- Estimation of future cash flows, including long term growth rates and profitability, and the level to which they are discounted are inherently uncertain and require significant judgement by the Group.
- Carrying value of goodwill and indefinite life intangible assets is material to the financial report.

We performed the following procedures, amongst others, to assess the valuation of intangible assets:

- Assessed whether the level at which the impairment assessment was performed was consistent with our knowledge of the Group's operations and internal Group reporting.
- Assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU for the purposes of impairment.
- Compared the forecast cash flows used in the impairment assessment to the Board approved Strategic Plan.
- Compared the performance of the CGUs against historical Strategic Plans to assess the reliability of the assumptions used in the Strategic Plans.
- Compared the discount rate and long term growth rates applied to the forecast cash flows to industry averages and those determined by PwC valuation experts.
- Considered the sensitivity of the value-in-use calculation by varying key assumptions and applying other values within a reasonably possible range, for example, by increasing the discount rate and reducing growth rates to assess the impact of deviations from forecast operating performance.

Key audit matter	How our audit addressed the key audit matter
Valuation of actuarially determined insurance liabilities *(Refer to notes 23 and 32 in the financial report)* Actuarially determined insurance liabilities include outstanding claims provisions relating to the Group's health insurance business ($69.8m) and non-investment linked benefit fund policyholder liabilities ($58.4m). We considered this a key audit matter because of the judgements required by the Group in estimating claims liabilities and benefit fund policyholder liabilities. These areas of judgement are discussed further below: a) Healthcare outstanding claims provisions Our audit focussed on the central estimate component as changes in actuarial assumptions driving this component are most likely to result in material changes in the total provision. We focussed on the estimates relating to the last two months of the financial year as a lower proportion of claims for these months are received at balance date, and therefore greater judgement is required. In particular judgements relate to estimating the type and amount of claims incurred but not yet received or processed. b) Benefit fund policyholder liabilities In determining the valuation of the liabilities, the key actuarial assumptions made by the Group's valuation experts include mortality assumptions and the discount rate applied.	To assess the assumptions used by the Group to determine the value of insurance liabilities, we along with PwC independent actuarial experts performed the following procedures amongst others: • Developed an understanding of the processes that the Group undertook to calculate the value of insurance liabilities, including the models used by the Group in calculating the actuarial liabilities. • Compared the methodologies used by the Group to those commonly applied in the industry and used in the prior period year. • Compared key actuarial assumptions used by the Group in forecasting expected payments to our own expectations based on the Group's historical experience, current trends and industry knowledge. For healthcare outstanding claims, we also compared the level of claims received after the year end, which related to the current financial year, to the estimate of outstanding claims provisions recorded by the Group.
Funding and capital management *(Refer to notes 9 and 19 in the financial report)* As disclosed in Note 9, Australian Unity Limited is required by the Australian Unity Bonds prospectus to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. A key input to the calculation of the Group's debt covenants is the amount of interest bearing liabilities in the Group's consolidated balance sheet. The Group operates a number of development funds which utilise third party capital in conjunction with support from financiers to fund the development of new retirement village units and aged care beds. The Group has not consolidated the funds into the Group financial position as it does not consider it has control over these funds. We considered this a key audit matter given: • The judgement required by the Group in determining whether or not the development funds should be consolidated. • The impact that the financing structure of the development funds may have on the Covenant Gearing Ratio if these funds were consolidated.	We performed the following procedures, amongst others: • We considered the terms and conditions of key agreements (including Trust Deeds, Investment Information Memorandums and Financing agreements) and whether the Group's assessment of the accounting treatment of the development funds was in accordance with Australian Accounting Standards. We found the accounting treatment of the Development Funds was consistent with our understanding of the Development Funds. • We assessed the Group's calculation of the Covenant Gearing Ratio as at 30 June 2017 by: – Comparing the methodology used to perform the calculation against the definition of the Gearing Ratio in the Australian Unity Bonds Base Prospectus. – Agreeing the key inputs to the calculation, such as the total of interest bearing liabilities and total equity, to the Group's accounting records. – Performing tests over the mathematical accuracy of the calculation. – Agreeing the Group's calculated ratio to note 9 in the financial report.

Operation of financial reporting Information Technology (IT) systems and controls

We considered this a key audit matter because the Group's operations and financial reporting processes are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls.

The Group's controls over IT systems include:

- The framework of governance over IT systems
- Program development and changes
- Access to process, data and IT operations
- Governance over generic and privileged user accounts.

Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.

We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.

Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

Other information

The directors are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Directors' Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Chair's Report and the Group Managing Directors' Report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Australian Unity Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Peter van Dongen
Partner

Melbourne
30 August 2017

CONTACT AUSTRALIAN UNITY

memberrelations@australianunity.com.au

13 29 39

australianunity.com.au

114 Albert Road
South Melbourne
VIC 3205

facebook.com/AustralianUnity

@australianunity

@australianunity

Australian Unity Limited
ABN 23 087 648 888

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