2016

Annual Report

www.austockgroup.com

Austock Group

Contents

Austock Group

CHAIRMAN'S REPORT

The financial year 2016 has been completed and now can be reviewed. In my previous reports I have emphasised the substantial future prospects ahead for the Austock Group and the need to position the Group to take advantage of these prospects. This has primarily involved a focus on organically building up the funds that Austock manages and administers, attaining efficiencies through scale with the consequent improvement in earnings and cash flow.

The 2016 financial year has solidly contributed towards the achievement of these aims, notwithstanding the unsettled markets and political climate that certainly marked the second half of the year. Whilst results were below what we had planned, in the overall scheme they have confirmed the confidence the Board has in the way its strategy and plans are unfolding.

Austock Life, in combination with Austock Financial Services, has again substantially lifted income, funds under management and administration. Austock Life has again been confirmed as the leader in its market sector and is recognised as such in independent external surveys. Our focus remains on organic growth as the most effective use of capital and means of building Austock's businesses.

Positive signs including a lifting in awareness, maintaining attractive margins, a lengthening of the term of investments and renewal of expiring policies have emerged in line with expectations. Austock Life is clearly the industry leader in respect of product innovation and has devoted substantial effort to ensuring that it keeps ahead of others in its market. Such leadership has also been demonstrated in marketing and education.

The operations of Austock Life and Austock Financial Services are both ably supported by our innovative marketing department. It creates and delivers state-of-art print and digital media to educate and inform our distribution and client network. This is imperative in this rapidly changing world of technology, and so called "disruptive" marketing, that we keep abreast of emerging market trends. Marketing's aim is to fully satisfy client service expectations and to keep ahead of competition through many facets including systems development, online access and portals, electronic interfaces and the use of digital analytics to keep track of our performance.

For the first time this report presents the Group's FUMA, meaning it covers the funds under management of Austock Life and the funds under administration of Austock Financial Services. Commencing with our September report to the Australian Securities Exchange, we will also continue this on a quarterly basis in the future.

Austock Financial Services with funds under administration of $1,157 million provides services to Austock Life and to external parties. Whilst this is a lower margin business it is a vital adjunct to Austock Life, and to its external clients, whose own operations depend on timely and precise reporting.

I have made it clear in my previous addresses that the Board strives to find the right balance between development of the business and earnings. Our forecasts show that significant benefits have, and will continue to emerge though growth in FUMA. Over the past four years the present Board has clearly demonstrated the viability and potential of Austock's business as costs as a percentage of funds under management and administration have fallen substantially.

The outlook for the Group as the innovative market leader remains very positive with substantial growth prospects in the market in which we participate. We have achieved the highest compound growth rate in that market by a substantial margin over the past four years.

This growth is independent of the profound impact that proposed changes to superannuation in the May Federal budget may have on our sector. Some strategists foresee our market as a substantial beneficiary of these proposed changes with the Government advocating that superannuation is not designed for wealth creation, intergenerational transfers and estate planning. The "life-event" products provided by Austock Life are clearly designed to provide and serve those very functions. We will be in a position to immediately fill any gap created by such changes should they become part of the law.

The comprehensive report from the Managing Director of Austock Life and Austock Financial Services that follows confirms the exceptional results achieved by those businesses over the past four years and the outstanding performance of its management and employees.

As we have done previously we have included an unaudited "Summary of Results" at the beginning of this report. The summary excludes the statutory Benefit Funds and more appropriately reflects what the shareholders earn and own.

Yours sincerely,

F. George. A Beaumont, QC
Independent Non-Executive Chairman
29 August 2016

Austock Group

SUMMARY OF RESULTS

(Unaudited)

The Summary of Results excludes the statutory Benefit Funds of Austock Life Limited to reflect only the shareholders' interest.

Austock reported an after tax profit of $2,138 thousand for the financial year ended 30 June 2016.

	Note	Full Year End 30 June 2016 Total $'000	Full Year End 30 June 2015 Total $'000	Movement $'000
Life and Services		7 339	6 713	626
Other income		307	317	(10)
Total revenue		**7 646**	**7 030**	**616**
Personnel		(4 472)	(4 108)	364
Occupancy		(353)	(346)	7
Communication		(83)	(86)	(3)
Finance		(10)	(14)	(4)
Distribution costs		(2 072)	(2 062)	10
Marketing and promotional		(319)	(277)	42
Depreciation and amortisation		(134)	(136)	(2)
General administration		(1 964)	(1 860)	104
Total expenses		**(9 407)**	**(8 889)**	**518**
(Loss) before income tax		**(1 761)**	**(1 859)**	**(98)**
Austock Life management fund benefit	1	2 307	2 266	40
Profit before tax		**546**	**407**	**141**
Deferred tax benefit	2	1 592	12	1 580
Profit after tax		**2 138**	**419**	**1 719**
Acquisition of NSPI	3	-	(1 150)	(1 150)
Profit / (loss) after tax continuing operations		**2 138**	**(731)**	**2 869**
Statutory reported result after tax		**2 138**	**(731)**	**2 869**

1. For income taxation purposes Austock Life is a single taxpayer comprising policyholder Benefit Funds and a central management or shareholder fund with all the Company's assessable income, allowable deductions and tax offsets being pooled. The net tax position of the management fund components gives rise to this benefit.

2. Deferred tax benefit details are provided in note 8 to the financial statements.

3. Refer to Remuneration Report for details for the NSPI acquisition and financial impact in the prior financial year.

Balance Sheet Summary

	2016 $'000	2015 $'000
Cash, cash equivalents and investments - term deposits	5 179	7 511
Income tax receivable	1 835	908
Trade and other receivables	521	556
Property, plant and equipment and software	144	259
Austock Life - goodwill	547	547
Deferred tax asset	1 727	-
Other assets	182	390
Total assets	**10 135**	**10 171**
Payables	(159)	(147)
Provisions and other liabilities	(1 427)	(1 549)
Total liabilities	**(1 586)**	**(1 696)**
Net assets	**8 549**	**8 475**
Comprising:		
Tangible assets	7 889	7 770
Intangible assets	660	705
	8 549	**8 475**
Weighted average number of share used for NTA purposes	**103 188 421**	**99 736 366**
NTA per share (cents)	**7.6**	**7.8**

2015/16

KEY PERFORMANCE MEASURES

LIFE BUSINESS FUM		SERVICES FUA		GROUP FUMA	LIFE PRODUCT SALES
$638 M	+	$1,157 M	=	$1,795 M	$134 M
▲ 8.8%		▲ 61%		▲ 37%	▼ 16%

GROUP PROFIT	GROUP PROFIT	PRODUCT RATINGS	APPROVED PRODUCT LIST
$2.1 M STATUTORY BASIS	$546 K UNDERLYING OPERATIONS	HIGHLY RECOMMENDED	246 DEALER GROUPS
Footnote[4]	▲ 34%	Maintained	▲ 7%

ACTIVE FINANCIAL ADVISERS	MILESTONE	SAVINGS PLANS	LIFE BOOK EXTENSIONS
1,016	$600 M FUM	$9.4 M	70 %
▲ 16%	Imputation Bonds and ChildBuilder	▲ 36%	Campaign Success Rate

[4] Includes Deferred Tax Benefit recognition

Austock Group

BUSINESS AND OPERATIONS REPORT

ROSS J HIGGINS
(LL.M LL.B B EC.)

Managing Director

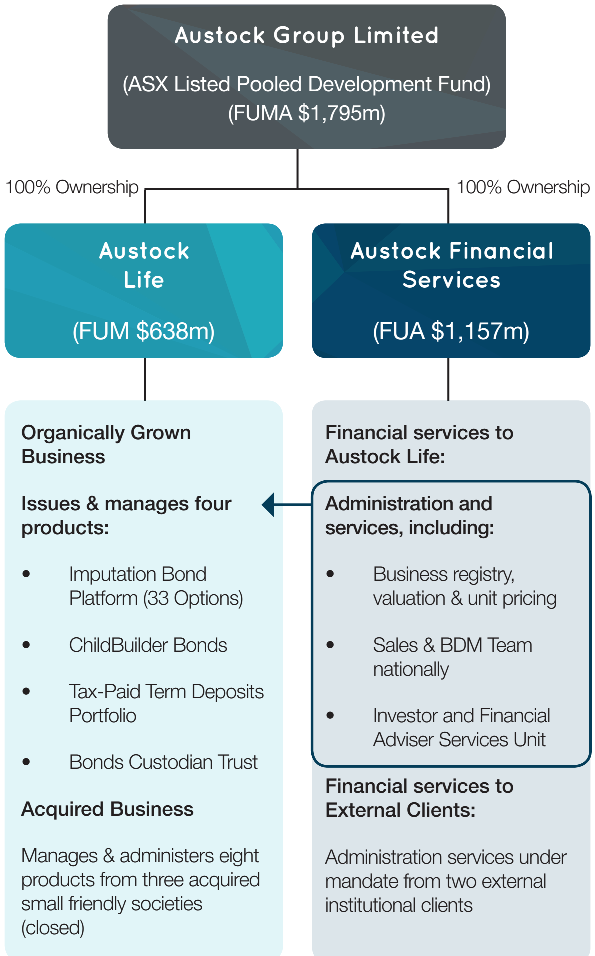
Austock Life and Austock Financial Services

Austock Group's Overall Businesses

This year's review starts by presenting an overall picture of Austock Group's businesses from both Funds Under Management and Administration **(FUMA)** perspectives.

This is in line with conventional financial services annual reporting and combines:

- **Austock Life's Funds Under Management (FUM)** comprising the assets of the Life business, which increased to $638 million by year end, growing by $50.9 million (8.7%); and
- **Austock Financial Services** which aside from being Life's administration and service entity, also administers funds for clients external to Austock Group. Its Funds Under Administration **(FUA)** for these external institutional clients reached $1,157 million by year end, growing by $437 million (61%).



Austock Group FUMA	2015/16 $m	2014/15 $m	2013/14 $m
Opening FUMA	1 306.3	1 080.8	881.8
Austock Life FUM Growth	52.5	107.3	108.9
Austock Services FUA Growth	437.7	119.5	88.6
Acquired Business FUM Movement	(1.5)	(1.5)	(1.5)
Closing FUMA	**1 794.9**	**1 306.3**	**1 080.8**

The overall picture reveals impressive FUMA of $1,795 million. Importantly though, this should be viewed in the context of the Life business generating high value, high margin "retail" business accounting for around 95% of Group revenue, whereas Austock Financial Services' (**Services**) FUA is derived from large, external mandates and is lower margin business.

Both businesses grew well this financial year strengthening the foundations for us to build a resilient and more profitable overall business with a high quality recurring revenue base.

Organically growing Austock Life is a compelling and financially attractive model, and accordingly, this is the Group's core strategic focus.

Indeed, over the four years since Austock fully completed its divestment program, our new Group Board has consistently reinvested most of the Group's emerging profit to underpin Austock Life's organic growth strategy.

This profit reinvestment program has been directed to product development, building the Sales and Distribution Team to the right scale, creating a new Investor and Financial Adviser Service Unit and enhancing our administration platform to handle volume and scale and to accommodate multiple product types.

This has also been a period during which Austock Life and the Services businesses (including the sales and marketing areas) have operationally and culturally been melded and become a cohesive and integrated business.

About this Business and Operations Report

This Business and Operations Report is intended to provide useful information to Austock Group Shareholders and to other stakeholders with interests in its businesses and affairs. These others include Austock Life's Bond Owners, supporting Financial Advisers, APRA, and Research and Ratings Agencies. It covers business and product descriptions and reviews, market information, strategic matters, and provides commentary on financial, operational and investment performance.

AUSTOCK LIFE REPORT

Austock Life has again made solid progress in our quest to build a high quality and highly trusted life insurance investment business - with 2015/16 being our 12th consecutive year of positive asset growth.

Executive Summary – Austock Life in 2015/16

Austock Life's 2015/16 results amount to another solid year of FUM growth and significant business improvements – all accomplished in testing business conditions. Volatile markets and ultra-low interest rates persisted throughout, with the second half of the year having an unsettled political environment and poor investor confidence and sentiment.

The year's product sales of $134.2 million is contextually a good result.

Although annual sales were down 16% on last year's record $160.7 million, the sales team achieved close to product sales budget expectations – in a year where some competitor platforms had net outflows.

Austock Life FUM Movements for 2015/16

	$ m
Opening FUM at 1 July 2015	**586.8**
Sales Inflows	134.2
Investment Growth	5.2
Acquired Businesses FUM movement	(1.5)
Withdrawals	(29.5)
Maturities	(57.4)
Closing FUM at 30 June 2016	**637.8**

Austock Life grew its assets by $50.9 million to close out the financial year at $637.8 million (up 8.7%). **Sales inflows** of $134.2 million were the major contributor.

This year's **investment growth** (which depends on investment markets) of just $5.6 million was the major growth inhibitor and fell well short of last year's $14.7 million, and FY14's $22.9 million. This was reflective of the poor performance of Australian and international equities.

The **Acquired Businesses** (which is in its natural "run-off" mode) experienced an expected FUM drop of $1.5 million, mainly due to death maturities (2015 - $1.5 million).

We experienced slightly higher voluntary **withdrawals** of $29.5 million (2015 - $27.1 million). Although this can be a somewhat random result impacted by economic and investment conditions, it was broadly in line with expectations based on its historical average and the level of FUM increase.

Imputation Bond **death maturities** increased to $57.4 million (FY15 - $40.9 million). Again, the scale of our growing FUM base impacted this result. The Imputation Bond's death maturity profile is also skewed to slightly higher levels due to its popularity in aged care planning strategies.

2015/16 Highlights

- $50.9 million uplift in FUM assets to $637.8 million (up 8.7%)
- $134.2 million of new business into Imputation Bond and ChildBuilder (down 16%)
- Imputation Bond (including ChildBuilder) platform passes $600 million FUM milestone
- Increased Dealer Groups using our products - 7% increase in Approved Product List (**APL**)
- Increased number of active Financial Advisers – (16% increase) to 1,016
- FUM Book lengthened with improved high quality business mix

These results validate the Group's strategy to build the Life business through organic sales focused on the financial planning market, and delivered by a national Sales and Distribution Team.

This strategy has also seen us writing longer-term FUM with an improving quality of new business mix in terms of both its longevity and higher value Bonds. (See p.19)

These improvements go hand-in-hand with a steadily increasing number of Financial Advisers using our new era insurance bonds for a myriad of life-events and financial planning objectives, beyond superannuation. (See p.19)

Business Overview and 2015/16 Review

Business Description

Austock Life is a life insurance company that manufactures, issues and distributes investment-based life business. It is 100% owned by Austock Group and was established in 2002 as an investee business under the Group's Pooled Development Fund (**PDF**) structure.

As a relatively new financial institution - the first life office of its kind in over 30 years – Austock Life has grown from zero FUM to assets of $638 million[5]. At 30 June 2016, our FUM comprised:

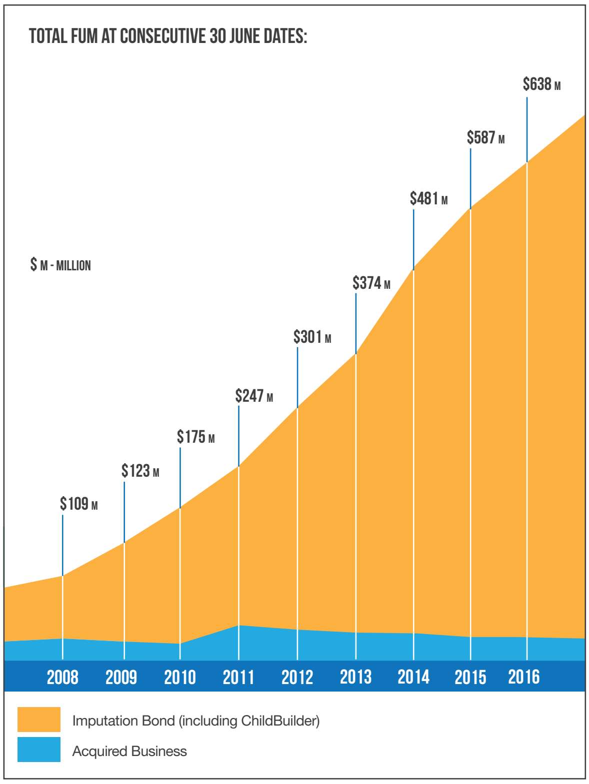
- the Imputation Bond (including ChildBuilder) – a master insurance bond platform – $608 million invested with over 3,500 Bond Owners; and
- $28.3 million in endowment, funeral and deferred annuity business of three small friendly societies acquired by Austock Life and managed for over 10,000 Bond Owners. (**Acquired Business**).

Austock Life has evolved to become the leading player and the driving force behind the rebirth of insurance bond investments. This sector is undergoing a "renaissance" of interest from investors and Financial Advisers.

Sales, FUM and Growth

Austock Life's flagship product, the Imputation Bond (including ChildBuilder) has since inception in August 2004 demonstrated impressive sales and FUM growth:

- Total invested funds (mostly Financial Adviser originated) business has exceeded $900 million over an unbroken sequence of positive business inflows.
- The positive sales growth trajectory has been strengthened by new product developments such as ChildBuilder Bonds (2010), Tax-Paid Term Deposits (2010) and the Bonds Custodian Trust (2014).
- Over the past four years, the Imputation Bond's investment platform has more than doubled with total assets growing by $342 million. This is an impressive 23% year-on-year growth. The five year compound growth story is also a very impressive 24% p.a.



Regulation and Licensing

Austock Life and its products are subject to regulation by both APRA[6] under the Life Insurance Act 1995 (**Life Act**) and by ASIC[7] under the Corporations Act 2001 (**Corporations Law**).

The company's life licence was granted by APRA under the Life Act in December 2002, and is unrestricted as to the classes of business that it can issue.

We also hold an Australian Financial Services Licence (**AFSL**) under the Corporations Law authorising us to be a dealer in "investment life insurance products" and to provide general financial product advice.

	2009		2010		2011		2012		2013		2014		2015		2016	
SALES	40m	-27%	66.2m	66%	80.1m	21%	88.8m	11%	105.4m	19%	135.1m	28%	160.7m	19%	134.2m	(16%)
FUM	123m	-	175m	-	247	-	301m	-	374m	-	481m	-	587m	-	638m	-
GROWTH	14m	13%	52m	42%	72m	41%	53m	21%	73m	24%	107m	29%	106m	22%	51m	9%

[5] Includes $1.6 million related Management Fund reserves

[6] Australian Prudential Regulation Authority

[7] Australian Securities and Investments Commission

Market and Competitors Review

Where Austock Life Sits in the Insurance Bond Market

Austock Life has cemented its position as the leading provider of insurance bonds on the market. The Imputation Bond (including ChildBuilder) has been Australia's No. 1 ranking Investment Bond (by net inflows) since June 2010[8].

Austock Life leads industry rankings[8] for FUM growth and has retained the leading net Funds flow ranking for the past seven years.

As against our competitors, Austock Life has grown to represent 8.6% of the total market for insurance bond business as at 31 March 2016. This ranked us 6th within the Industry's $7 billion FUM, as measured at 31 March 2016[8].

Other active insurance bond providers in this sector, and their respective market shares, include: Australian Unity Group 25.5%; IOOF Group 12.2%; Centuria Capital 10.2%; AMP Group 7.5% and Commonwealth / Colonial Group 11.4%.

It should be recognised that the sector's circa $7 billion "market" FUM represents investment bonds where most institutions have sizeable legacy and run-off books that were written decades ago.

In contrast, Austock Life's FUM book is a relatively new business book, 95% of which is derived from the over $900 million of organic sales since our inception in 2002.

[8] Source: Plan For Life Actuaries & Researchers "Investment Bonds Report" for March 2016 - Latest available statistics

New Super is a Game Changer

Australia's superannuation system is currently undergoing major redesign that is expected to significantly lessen (and distort) its concessions and thereby its attractions to high income and wealthier investors.

Under the coming "New Super" regime, investors (and their Advisers) will be looking for tax-effective investments outside superannuation. The insurance bonds market and our products will be at the forefront to take advantage of these changes.

In Austock Life's insurance bond centric world, the core objectives of superannuation that the Federal Government will be shortly enshrining into Law are important, but we are more excited about New Super's Stated **Non-Objectives**.

Besides the obvious - that "superannuation is ***not*** for tax minimisation" – it is the other **Non-Objectives** that superannuation is:

- ***not*** an uncapped wealth accumulation vehicle;
- ***not*** for estate planning; and
- ***not*** for intergenerational wealth transfers;

that will significantly enhance the future role of insurance bonds in financial planning.

This of course is because these Non-Objectives are exactly the things that our Imputation Bond and ChildBuilder products are designed to address. Our products operate in a remarkably stable, Federal legislative and tax-friendly environment.

Simply stated, most of the financial system's investment assets (over $2 trillion until now) have been directed to superannuation. However, Government policy changes should translate to us being on the verge of significant growth in the insurance bond market.

(Also see p.23, "Capitalising on New Super's Many Opportunities".)

Investing for Growth

Dividends vs. Investings for Growth

Austock Life's business model is a function of an annuity style revenue stream generated from management fees earned on our FUM.

As the leading insurance bond issuer and distributor since the business' inception in 2002, we have throughout been able to maintain attractive fee margins on our products.

Over the past four years under the incumbent Group Board, the asset base comprising our FUM has grown consistently and strongly, and we have achieved critical mass for profitable operations. Also, over this period profits have been reinvested into our business and directed to supporting Austock Life's organic growth strategy (including our Service entity). In particular to:

- **Sales and Distribution Team** – growing our Business Development Manager (**BDM**) team to scale and with national coverage.
- **Marketing** – invested in recruiting quality people and building systems to deliver marketing through new digital technologies – with limited traditional advertising expense.
- **Product Development** - focused on "break-out" products like ChildBuilder that use the Imputation Bond's platform.
- **Service** - creating a dedicated Investor and Financial Adviser Service Unit.
- **Information Technology (IT)** - investing in our state-of-art administration and IT platform tailored to our insurance bond's master fund-like menu.

In executing this "profits" reinvestment strategy, we have maintained a strong cost control culture and a disciplined approach. The Group has no debt and holds sound free cash levels to position us well in pursuing future opportunities.

Factors behind Investing for Growth

Over the past four years, the business has been built and attuned to the right scale for our current product mix and distribution plans – and importantly – for our current view of our expanding market.

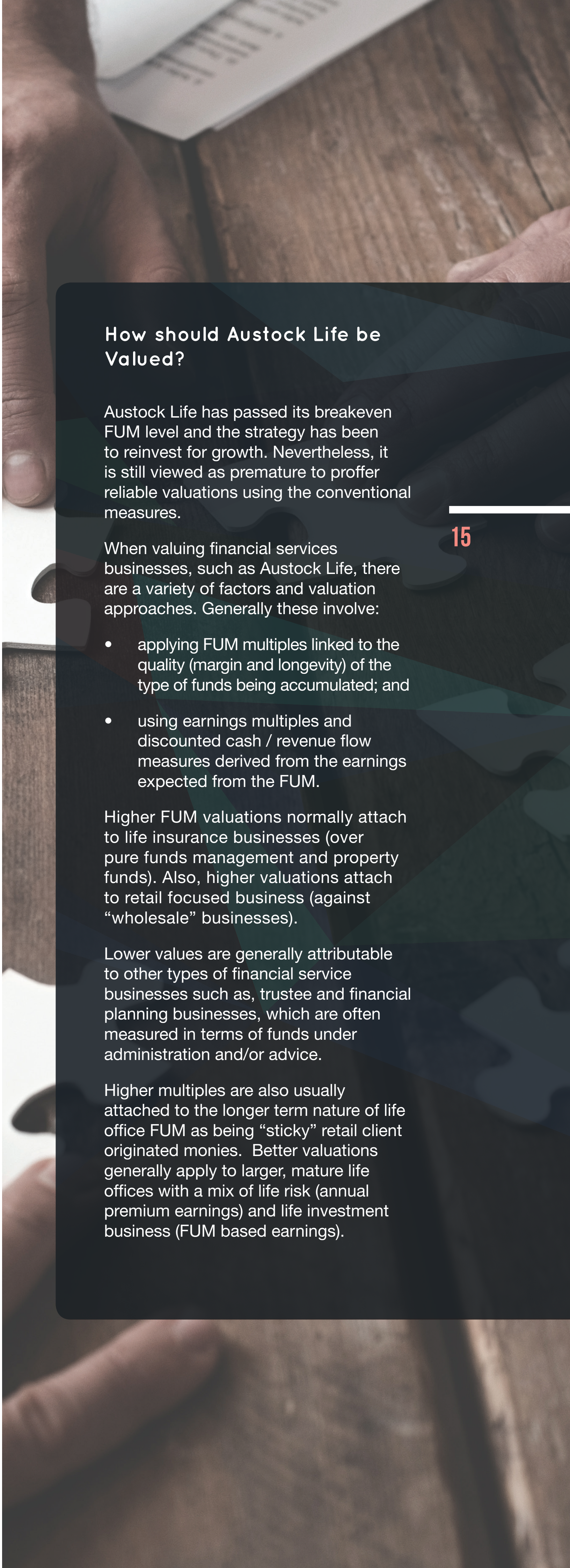
As such, the profitability outlook is positive and will be significantly less influenced by the Group's reinvestment of profits for FUM growth strategy.

It should be borne in mind that in the context of building a long-term, quality book of life insurance investment business from scratch - the company should still be considered in its formative accumulation phase.

There are many important factors supporting Austock Group's investing for growth strategy:

- Austock Life is a leading player in a rebounding insurance bond sector, and even more so with New Super shaping as a Game Changer for the sector. (See p.13)
- Austock Life operates in a capital intensive Industry with high barriers to entry in terms of licensing, entry capital, scale lead-time and intellectual property in creating products and distribution.
- The company's products are highly scalable with a flexible product platform that operates entirely using our Services "in-house" administration, and (importantly) with a relatively fixed cost base.
- The Imputation Bond's investment platform covers the spectrum of Australian and international asset classes, which provides diversification protections and fee revenue resilience in volatile market conditions.

- The Imputation Bond product is our reinvention of the modern insurance bond – out of which we have successfully innovated with “break-out” products ChildBuilder, Tax-Paid TDs and the Bonds Custodian Trust (**BCT**).
- Imputation Bonds and ChildBuilder are higher margin and value “retail” life insurance investment business, and is typically written as part of medium to long-term financial, tax or estate planning strategies (see p.19). This business is not exposed to concentration risk associated with large institutional mandates.
- The Imputation Bond now has over a 10 year track record in the market, and its FUM base is generating high quality, valuable, automatically recurring new business. Savings Plans (especially for ChildBuilder) are growing very strongly and 125% Add-On business is increasing.
- We are having considerable success with our “Retentions and Extensions Campaign”. This is directed to rewriting our book of Imputation Bonds set with 10-year maturities that began occurring from August 2014. (See p.16)



How should Austock Life be Valued?

Austock Life has passed its breakeven FUM level and the strategy has been to reinvest for growth. Nevertheless, it is still viewed as premature to proffer reliable valuations using the conventional measures.

When valuing financial services businesses, such as Austock Life, there are a variety of factors and valuation approaches. Generally these involve:

- applying FUM multiples linked to the quality (margin and longevity) of the type of funds being accumulated; and
- using earnings multiples and discounted cash / revenue flow measures derived from the earnings expected from the FUM.

Higher FUM valuations normally attach to life insurance businesses (over pure funds management and property funds). Also, higher valuations attach to retail focused business (against “wholesale” businesses).

Lower values are generally attributable to other types of financial service businesses such as, trustee and financial planning businesses, which are often measured in terms of funds under administration and/or advice.

Higher multiples are also usually attached to the longer term nature of life office FUM as being “sticky” retail client originated monies. Better valuations generally apply to larger, mature life offices with a mix of life risk (annual premium earnings) and life investment business (FUM based earnings).

Products Review

Imputation Bonds

The Imputation Bond is Australia's market leading insurance bond investment platform – and Austock Life has evolved to lead the field as an independent and a specialist provider of insurance bond investments[9].

The product operates under an insurance bond "Tax-Paid" and "Tax-Free"[10] distributing structure.

Imputation Bonds enable investors to incorporate into their financial plans capital accumulations for "life-event" objectives such as: creating specific-purpose endowments; for home ownership; education funding; and in estate planning.

It also is commonly (and increasingly more so with New Super) used as an accessible and uncapped contribution level alternative to superannuation.

New Imputation Bond Business in 2015/16

Imputation Bond sales of $111 million were achieved in a testing year.

Despite market downturn factors, we experienced another solid year of increases in the number of new Bonds taken out.

Also pleasing in 2016 was the product's take up of the 125% Add-On Investment and Savings Plan features. Some $9.4 million of new business inflows for the year was attributable to long-term Savings Plans (up 37%).

In May 2016 the total investment platform FUM (which includes ChildBuilder) reached the $600 million milestone, closing the year out at $603 million.

Bond Sizes in 2015/16

Investor (and Financial Adviser) confidence in the Imputation Bond continued in 2016 reflected by the extent of high denomination lump sum new business written.

The 2016 average was $106,000 per Bond, which whilst under the product's long-term average of $152,000 (inception 2004) is as a consequence of a significant increase in the number of Imputation Bonds written (up 10%) this year.

Imputation Bonds – Activity in 2015/16

- Sales $111 million* (down 20% - FY15 – $139 million)
- 1,046 Imputation Bonds issued (up 10% - FY15 – 947)
- Platform FUM increased to $608 million (up 10%) and $52.9 million net FUM increase (2015 - $108.1 million)
- Savings Plans annually recurring business grew to $9.4 million (up 37% - 2015 - $6.9 million)
- Average Imputation Bond lump sum size $106,000 (inception 2004 average $152,000)

* Source: Austock Life Sales System data.

Retention and Extensions Campaign

The first Imputation Bonds were issued back in 2004. Many of these Bonds were taken out to end with a 10 year maturity term. We have responded by establishing a permanent "Retention and Extension Campaign" to promote to Bond Owners approaching 10-year maturities, the benefits of Bond term extensions.

The attractions of extending are strong because after 10 years, these Bonds enter their most valuable tax-effective phase – all proceeds (including all investment growth) are Tax-Free receipts in the hands of Bond Owners.

This Campaign has met with considerable success with around 70% of otherwise term maturing Bonds being extended, and most for 10 years or more.

[9] Since June 2010, the Imputation Bond has held Australia's No. 1 Investment Bond ranking by net funds flows. Source: Plan For Life Actuaries & Researchers "Investment Bonds Report" for 31 March 2016.

[10] "Tax-Paid" and "Tax-Free" are explained in the Imputation Bond's current PDS available at www.austocklife.com

ChildBuilder™ Bonds

ChildBuilder is an investment vehicle for parents and grandparents to address many financial objectives for their children and grandchildren. It was created by Austock Life as a "break-out" product from the Imputation Bond's structure - using its same taxation framework and its full investment menu.

The product is designed as a dedicated investment for providing a child's financial head start with a first home deposit, meeting education funding challenges, paying out student loans, a first car, overseas travel, wedding expenses, or for starting a family or a business.

Forward thinking parents and grandparents can use ChildBuilder to build financial provisioning earmarked to reduce or payout student loans and debt burden.

Alarming student debt levels nowadays means many children and grandchildren are burdened with high HECS / HELP student debt (often over $100,000).

ChildBuilder is also a valuable estate planning tool to plan ahead with "peace-of-mind" over how, when and to whom an investor's estate wealth will be distributed to the next generation. ChildBuilder is a simple way to create inheritances for children and to structure intergenerational wealth transfers.

ChildBuilder has "off-the-shelf" simplicity as a low maintenance, low tax, and a cost effective alternative to creating complex and costly Testamentary Trusts.

This can be flexibly done either outside or in conjunction with a normal Will.

Importantly with ChildBuilder, during its pre-vesting phase, its initial Bond investor (e.g. parents or grandparents) can flexibly access it as their own tax-effective investment and for their own unspecified purposes – or optionally have ChildBuilder vest in their nominated child for specified (non-binding) "Intended Purposes".

ChildBuilder in 2015/16

ChildBuilder's popularity with investors (and Financial Advisers) helped it maintain its strong presence in our business mix - representing 44% of our new business by product type.

Over 2015/16 the average ChildBuilder Bond size rose slightly to $29,730. Whilst this is about the same as last year's average, ChildBuilder Bond numbers grew strongly to 2,000 (up a massive 35%) for the year, and up 206% over three years.

ChildBuilder – Activity in 2015/16

- Sales of $13.2 million* (down 1% - 2015 - $13.3 million)
- 818 ChildBuilder Bonds issued (up 19% - 2015 685 Bonds)
- Average ChildBuilder Bond size $29,730 (2015 - $30,673)
- ChildBuilder represents 44% of our new business mix by product type (2015 – 42%)

* Source: Austock Life Sales System data.

Tax-Paid Term Deposits (TDs)

This is one of Australia's first actively managed and unitised portfolio of TDs with the added innovation of being under a Tax-Paid insurance bond framework. It is a "low fee" option and structured as Option #14A on the Imputation Bond's investment menu.

Since inception in July 2010, the Tax-Paid TD's portfolio has grown to be the largest and most popular choice on the investment menu.

Apart from being one of the options on the Imputation Bond's menu, this portfolio is also designed to independently operate with "product-like" stand-alone attractions.

For higher taxed investors, besides the tax-effectiveness of investing into an internally taxed pool of TDs, by taking a portfolio approach they can:

- access the superior liquidity of a daily unit priced portfolio of TDs with flexible access at any time – and without incurring early withdrawal costs sometimes applied to directly held TDs; and
- eliminate the hassle of personally managing TD maturities, rate shopping and benefit from the Imputation Bond's "set-and-forget" tax administration and reporting.

Performance of Tax-Paid TDs is enhanced by our "portfolio" approach to investing into TDs.

Tax-Paid TDs – Activity in 2015/16

- $26.1 million of new business inflows (2015 - $49.6 million)
- FUM TD option 14A falls to $158 million (down 8%)

Bonds Custodian Trust (BCT)

The BCT is an "umbrella" private trust structure invented by Austock Life and launched in March 2014.

The product is designed to streamline the cost-effective production of multiple Bare Trusts ($100 per trust) with each individually constituted trust only able to hold an Imputation Bond as an investment.

Since its launch, over $80 million of Imputation Bonds have been structured in BCTs to take advantage of strategies centered on holding insurance bonds inside private trusts. The BCT's main use has been in aged care strategies.

BCT – Activity in 2015/16

- Over 2015/16 new Imputation Bond business originated under BCTs was $29.2 million
- Since BCT's inception in 2014, over $80 million of business has been structured using it

Product and Industry Sector Ratings

"Highly Recommended" – Zenith Product Rating

During 2015/16, the Imputation Bond (including ChildBuilder) retained its "Highly Recommended" rating from leading and independent Research House, Zenith Investment Partners.

This Highly Recommended rating has been in place since August 2008 and has been instrumental in the product's successful distribution and our growing APL and network of supporting Financial Advisers.

Zenith Insurance Bond Sector Review

In Zenith's 2015 Investment Bonds Sector Report, pleasingly, the Imputation Bond (including ChildBuilder) is the only Highly Recommended insurance bond in Zenith's ratings universe of 10 competitor insurance bonds.

Book Quality and Duration Analysis

A High Quality Long-Term Book

Imputation Bonds can be set to have up to a 99 year term. This is a special feature designed to work in tandem with the product's many very long-dated strategy-based applications.

ChildBuilder Bonds typically have investment terms of between 10 to 25 years.

Across Austock Life's total "book of business", we can glean (and estimate) from certain Bond set up indicators expected durations for different business classifications. Across all, the average (estimated) Bond duration (including Childbuilder) for FY16 was 12 years.

Total Bonds Book – Business Durations (Estimated)

	Current Year	3 Years Ago	5 Years Ago
Total Imputation Bond Book (years)	12	11	9

Longevity of the book has markedly improved over the past five years driven by the declining fraction of the much shorter term Aged Care and BCT book.

Imputation Bonds Business

This block of business can be broken into these categories:

Future Events Book

Many Imputation Bonds are taken for future or life-event objectives. These include as a mortgage or loan sinking funds, financing education or home ownership, for specific purpose endowments or as superannuation alternatives.

Also, in this category, is where Bonds are used as investment assets in discretionary trusts, where terms are usually long-term (e.g. 20 plus years). Bonds that are simply structured with standard 10 year terms aligned to the insurance bond taxation framework are also included. Across this book, investment terms are typically set for 10 to 20 years.

Estate Planning Book

Imputation Bond business that has been set up to include estate planning arrangements (via the Bond's "Will-like" nomination feature) generally have terms that meet the client's (or other person's) death maturity expectation. Even if this is thought to be short, the Bond still usually specifies a 10 year plus term.

Aged Care and BCT Book

These are our shorter duration Bonds, written as part of strategies to assist with Aged Care income test thresholds. Due to recent legislative changes, this is a declining book.

Imputation Bond terms here are generally driven by a death and estate administration profile of three to six years.

Annuity Book

This is a very new business line and in its infancy with only $2.5 million FUM. Pleasingly, there is a high $418,000 average bond size.

ChildBuilder Business

The ChildBuilder book, whilst it entails much smaller sized investments than the Imputation Bonds, is our most valuable FUM.

This is because ChildBuilder Bonds are usually very long-term. Bond duration takes into account a Nominated Child's age (0 – 16 years at inception) and the Bond's set vesting date in favour of the child between ages 10 and 25 years.

As such, ChildBuilder Bonds will typically run anywhere between 10 to 25 years, and even longer if upon an age 25 vesting, the child elects to continue the Bond as his or her own investment.

Total Book Composition (Estimated)

	Current Year	3 Years Ago	5 Years Ago
Future Event & Estate Planning Books	57.5%	50.2%	33.8%
Aged Care & BCT Book	32.3%	43.2%	62.5%
Annuity Book	0.4%	-	-
ChildBuilder Book	9.8%	6.6%	3.7%
	100%	100%	100%

Maintaining High Denomination Business

Across the total Imputation Bonds and ChildBuilder FUM book the current average Bond size is $124,000. This has remained relatively stable over the past 5 years as the FY11 average Bond was $134,000, and notably over the period there has been a significant increase in the number of Bonds written.

Product and Investment Menu Development

Product Development

Austock Life's product development strategy is to use our life office structure to design and manufacture creative tax friendly investments that:

- provide our investors with a broad spectrum of investment choices under tax-effective product platforms, so their personal "after-tax" position can be optimised; and
- integrate with financial planning objectives and the provision of advice by Financial Advisers (Our primary distribution channel).

As a smaller player with a highly experienced and specialist product development capabilities, we have advantages of agility. We also have proven product development credentials demonstrated by our successful ChildBuilder, Tax-Paid Term Deposits, the BCT, and more recently innovating with "annuity-like" withdrawal streams generated out of the Imputation Bond's product structure.

Central to our future product development program is the Imputation Bond, a robust and proven product development platform. Going forward we plan to continue to use it to develop other "break-out" products, such as:

- non-superannuation annuities and annuity-like withdrawal streams (immediate and deferred) that can be generated out of the Imputation Bond's flexible structure; and
- other life-event style products, such as estate planning bonds that can be marketed both as a stand-alone product, or a bundled offering within the current Imputation Bond's framework.

Product Badging

With the emerging rejuvenation of insurance bonds (and the perpetual tampering by Government to lessening superannuation's attractions) comes an increasing attraction and interest for product "badging" and distribution alliances.

Given the history, that our Industry's only significant and successful two badging alliances date back to the 1980s, and also real risks of non-completing arrangements, we are intent on doing this only with the right fit counter party.

Investment Menu Development

Our product development plans also encompass ongoing expansion of the Imputation Bond's master fund-like investment menu.

Since its launch in 2004, the Imputation Bond's original menu of 14 investment portfolios has undergone considerable development to its present 33 options.

Menu Changes During 2015/16

In May 2016, the BT Wholesale Enhanced Credit Fund replaced the UBS Diversified Credit Fund as the Underlying Managed Fund (**UMF**) for the Bonds' Portfolio #3. Besides this change, over 2015/16 no new investment options were added.

Menu Changes Since 30 June

Since 30 June, we have expanded the Bond's popular Vanguard Indexed range in response to increased interest and uptake in the lower cost passively managed fund space.

This also recognises the high compatibility of diversified Indexed funds with 'set-and-forget' investing especially into our very popular ChildBuilder. These Bonds are often set with 20 year plus terms to meet objectives like education and home ownership funding.

With the three additions, investors now have a comprehensive range of seven portfolios that invest into indexed underlying funds. The new options are:

Portfolio #12C - Vanguard Diversified Conservative Index, where Vanguard's UMF invests into a range of sector funds to gain broad diversification across multiple asset classes biased towards income assets.

Portfolio #12D - Vanguard Diversified Growth Index. This Portfolio's Vanguard UMF also invests into a range of sector funds, with its asset class diversification biased towards growth assets.

Portfolio #11a – Vanguard International Shares Index (Unhedged) has been added to complete the range of sector specific index options.

Menu Composition and Inflows

The Imputation Bond (including ChildBuilder) is an insurance bond master investment platform. One insurance bond is issued to each investor, who can currently select across a "fund-of-funds" menu of 33 investment options[11].

As at 30 June 2016 FUM composition attributable to the 16 different professional managers engaged in the investment of the Bond's menu, and their FY16 inflows were:

Imputation Bond Investment Menu FUM by Manager at 30 June 2016			**2015/16 Inflows**
Mutual Limited	$167.4m	27.5%	$10.4m
Vanguard	$89.0m	14.6%	$21.1m
Perpetual	$85.3m	14.0%	$17.6m
MLC Investments	$49.2m	8.1%	$11.9m
Macquarie Cash	$42.1m	6.9%	$10.4m
Dimensional	$39.7m	6.5%	$7.1m
PIMCO	$35.9m	5.9%	$11.1m
Magellan	$32.3m	5.3%	$11.3m
Investors Mutual	$13.4m	2.2%	$2.8m
Fidelity	$12.7m	2.1%	$2.7m
BT	$11.9m	2.0%	$2.4m
Fairview	$9.3m	1.5%	$1.5m
Schroders	$6.1m	1.0%	$1.0m
Equity Trustees	$5.0m	0.8%	$0.1m
AMP Capital	$4.6m	0.8%	$1.7m
Lazard	$3.9m	0.6%	$1.7m
Total	**$608.0m**	**100.0%**	**$134.2m**

Investment Menu Performance

Performance across the menu's 30 portfolios this year yielded a mixed bag of good, mediocre to very poor results.

Most of the menu performed in a 0% to 4% band, but there were four options with standout 10% plus performance. Importantly, 20 of the 30 portfolios delivered positive growth after portfolio tax and fees. Disappointingly, 10 options had negative returns.

The year was one of persisting volatility in domestic and international equity markets. Also, Australia went even deeper into its ultra-low interest rate environment and the CPI inflation measure was just 1%.

[11] Post 30 June 2016, three new options have been added – see p.20).

The menu's best performing asset class was Australian property with both options invested here achieving excellent returns of just under 17% after portfolio tax and fees.

Australian equity market performance as measured by the S&P/ASX 300 Accumulation Index posted just 0.87% for the year. The menu's larger cap options performed in a -6% to 3.5% band, but the menu's Australian Small Companies option highlighted small cap outperformances returning 11%.

International equity markets were well under long-term averages with the MSCI World Ex-Australia Index (A$ hedged) posting a -1.27% return.

Whether the managers hedged or unhedged their fund's exposures to international securities, made little performance impact with the $A relatively steady over the year.

Investment Menu Performance in 2015/16

- 20 of 30 Options achieved positive returns (after fees and taxes)
- 4 of 30 Options delivered 10% plus returns (after fees and portfolio tax)
- 2 Options had returns in excess of 15% (after fees and portfolio tax)

Fixed interest asset classes performed above the long-term average with the Bloomberg Aus Bond Composite Index returning 7.02% for the year. The menu's seven options here generated returns ranging from 0% and 5%.

With the cash rate of 2% for most of the year, and then reduced to a record low 1.75% in May, the performance of the platform's cash and term deposit based options was lean.

Positive 3, 5 and 10 Year Returns

Overall, the pleasing position is that the entire menu's longer term returns maintained impressive three and five year significant outperformance in all growth oriented asset classes.

Now with a track record of over 10 years, the Imputation Bond's investment menu has an enviable claim that all menu options have positive returns, and most options over the 10-year timeframe are performing very well in their respective asset classes.

Strategy and Business Plans

Strategic Direction and Objectives

The strategic vision for Austock Life is to build a high quality and highly trusted life insurance investment business.

This strategy's execution is by using our life office business structure to design, manufacture and distribute creative investment and endowment products. We want to provide our investors with a broad spectrum of investment choices under tax-effective product platforms, so their personal "after-tax" position can be optimised.

Austock Group has the overarching strategic objective to create long-term shareholder value and deliver sustainable and attractive returns to shareholders.

Business Plans and Organic Growth

Since Austock Life's inception in 2002, our business plans have focused on product development, sales and distribution, and establishing our administration systems. We have also implemented a robust corporate governance and compliance framework attuned to being an APRA prudentially supervised Life office.

Although we have made three small acquisitions (see below), Austock Life's primary strategy is to grow organically. Recent years have seen the company's total FUM exhibit strong growth principally driven by new Imputation Bond and ChildBuilder business.

Our 2015/16 Business Plans adhered to this strategic direction with the company's management and the Sales and Distribution Team focused on organic FUM growth.

Sales and Distribution Strategy

Our sales and distribution strategy (which in turn drives FUM growth) has two key components:

- concentrating on the Financial Adviser market – by taking an intermediary approach to "selling" Austock Life's products via Advisers and their Dealer Groups; and
- building and managing our own Sales and Distribution Team that creates and services relationships with Advisers and their Dealer Groups.

Our Financial Adviser & Dealer Group APL

Austock Life has steadily grown our APL numbers of supporting Financial Adviser Dealer Groups (where the Imputation Bond and ChildBuilder are approved for use) and also achieved greater penetration into our existing Dealer Group support list.

With the Imputation Bond now having over 10 years in the market, Austock Life has built an established and growing Financial Adviser and Dealer Group support base of over 246 Approved Dealer Groups with over 1,016 active Financial Advisers.

Over 2015/16, their numbers grew and we also achieved greater penetration into our existing Dealer Group relationships.

Sales & Distribution in 2015/16

- Sales and Distribution Team – unchanged, stable and at scale for current plans
- Financial Adviser Dealer Group APL decreased from 246 - 235 (down 4%)
- New Business placed by separate Dealer Groups and active Financial Advisers up 16%

Industry trends favour us with Financial Advisers shifting to strategy based life-events plans and with the Banks moving away (divesting) their financial advice Dealer Groups. The Government's Future of Financial Advice reforms, which have introduced "Best Advice" requirements (now being enforced by ASIC) is driving this change.

Our Sales and Distribution Team

This is a specialist team with a single product line focus – the Imputation Bond (including ChildBuilder) and how our products integrate with the giving of financial, tax and estate planning advice.

This model focuses on Financial Adviser education and re-education in master class presentations, in-field sales meetings, training, coaching and relationship development with Financial Advisers and their Dealer Groups.

We take a strategy-based and hands-on approach in working with Financial Advisers to grow their businesses – especially by engaging with their business referral sources, such as solicitors and accountants.

The Sales and Distribution Team under Tony Gobbo, as National Sales Manager comprises two Sales Managers and five "in the field" BDMs.

Our BDMs are all technically proficient and we seek to appoint those with financial planning and advice backgrounds. Our BDMs also draw on our in-house Technical Support Staff.

The team operates with accountabilities for our Bank aligned and independent Dealer Groups broken down by accounts and territories covering all States.

Strategy Innovation for Financial Advisers

An essential ingredient to our product success has been our distribution model being primarily focused on working with Financial Advisers. We must not only reinvent, but must continue to innovate with financial, tax and estate planning strategies for use by Financial Advisers.

Capitalising on New Super's Many Opportunities

As this world of New Super unfolds Financial Advisers will be doing some serious reviewing of the financial plans of higher income and wealthier clients.

For many, this will mean looking to the non-super alternative investments, including how these products work alongside super in complementary strategy applications. The New Super strategy areas that we will be focusing on with Financial Advisers are:

- **Discretionary Investing Given Likely Super Lifetime Caps**

  Insurance Bonds are the next best, and indeed only alternative tax-effective investment framework to superannuation. They have completely uncapped contribution limits for lump sum investments with progressively increasing caps for ongoing additional contributions under the insurance bond system's 125% Rule.

- **Achieving Estate Planning Outside of Super**

  Our Imputation Bond's "Will-like" nomination feature will be ideally placed to make up for the expected shortcomings under New Super for conveying tax-effective inheritances.

- **Intergenerational Wealth Transfers Outside of Super**

  Imputation Bonds are a versatile tool for making intergenerational wealth transfers - these can be flexibly structured as Estate and/or "protected" Non-Estate arrangements

- **Less Attractive Pension Account Income Streams and Replacements for Transition to Retirement Pensions.**

  Imputation Bonds can be set to generate tax-effective "annuity-like" withdrawal streams. Bond Owners have total flexibility to create variable, or even deferred payment streams drawn against their Bond's selected investment portfolios.

Tax Management Strategies for Family, Discretionary and Testamentary Trusts

This is the other high focus strategy area with Financial Advisers and Accountants. We demonstrate how modern "internally taxed" Imputation Bonds, when held inside private discretionary trusts, can play a valuable role in managing the structure's annually distributable income.

Importantly, this strategy can be a solution to often problematic taxation issues when private trusts annually distribute to so called "bucket companies".

Acquisitions Strategy

Acquired Business

Since Austock Life's establishment in 2002 we have acquired three small friendly societies' "run-off" endowment, funeral and deferred annuity business. This Acquired Business accounts for $28.3 million (as at 30 June 2016) and around 10,000 Bond Owners.

Austock Life has significantly benefited from each acquisition because they entailed nil consideration and provided capital allowance transfers. We also gained stable revenue streams and integrated all of this business with cost efficiencies from insurances, audit and actuarial/integrating systems.

Acquisitions Outlook

Austock Life operates in a limited life office (including friendly societies) universe for potential acquisition, merger or alliance activity.

As such, our strategy is to opportunistically pursue acquisitions provided they are not prohibitively priced or involve capital intensive or low margin products.

Life office acquisitions can be long and convoluted transactions under the Life Act and APRA's transfer of business processes. As a result, we are wary of acquisitions expected to be disruptive in terms of time, cost or which may overly divert us from our primary, higher margin organic sales strategy.

Management And Operations Review

Austock Life's Directors

As an APRA regulated life company our corporate governance arrangements require:

- Board composition of at least five Directors, with a majority of non-executive Directors, and at least half being independent of Austock Group's interests; and
- having separate Board Committees for Audit, Risk and Compliance, Investment and Remuneration.

Austock Life's Board is a stable and experienced Board with a balanced spread of skills and backgrounds in funds management, life insurance, friendly societies, law, commerce and corporate governance.

Management Team and Staff

Austock Life's senior management has considerable financial services experience in life insurance, investment management, superannuation and managed funds. The Distribution Team's senior sales executives have extensive financial planning and distribution experience.

Across the Group there are 28 permanent employees (including senior management). This is a well trained and settled team, which over 2015/16 experienced no departures and grew by three additions to the business processing and operational areas.

Marketing Activities in 2015/16

- New Financial Adviser Portal launched
- Developed a suite of calculators for product modelling
- Online webinars and educational video series
- Public relations, social and digital media campaigns executed
- New Childbuilder selling documents completed

Operations and Administrative Systems

These are all well established with the company undertaking its own corporate and day-to-day management activities and its own finance and accounting functions.

Over 2016, we have progressed the streamlining of our business processing operations and invested in systems and capability. These improvements were made with only modest cost and capital investment, and included:

- upgrading of the IT platform (hardware and software) for both Austock Life and Austock Financial Services;
- moving our systems servers to a secure Tier 1 offsite data-centre;
- social and digital media and IT developer capabilities expanded; and
- Austock Life's Business Continuity Plan – upgraded and tested.

Austock Group Intra – Group Functions

Austock Group provides (by agreement) Austock Life's operating infrastructure, including premises, fittings, furniture, computer hardware and computer software.

Group level assistance is also provided with Austock Life's financial and capital management (via the Group CFO) and it also undertakes payroll services and IT management functions.

Austock Financial Services - Intra Group Functions

Austock Financial Services (**Services**) is a 100% owned subsidiary of Austock Group. It holds an Australian Financial Services License.

This business provides, under an outsourcing agreement (which is supervised by Austock Life) administration services, including unit pricing, fund valuation, investment and fund accounting, fund administration and business registry services for the Imputation Bond, ChildBuilder and Tax-Paid TDs.

In addition to looking after the administration of Austock Life's business, Services' operations also cover providing administration services for two external clients. Between Mutual Limited (Austock Life's investment manager) and a small mandate from another asset management company, Services has funds under administration of over $1,157 million.

Since the Imputation Bond's inception in 2004, it has been administered using the Garradin Portfolio Manager platform. This is a state-of-art funds management system with daily unit pricing, unit registry and general ledger functionality specifically tailored for Insurance Bond business.

Austock Financial Services' outsourcing arrangements also encompass it engaging and managing the Sales and Distribution Team and also the new Investor and Financial Adviser Service Unit.

Operational and IT Activities in 2015/16

Information Systems

- IT administrative systems enhanced
- Customer Relationship Management (CRM) system upgraded for BDMs
- IT centralised across business units with Senior Manager and in-house IT developer and analyst

Risk & Compliance

- Business Continuity Plan revised and tested
- IT security measures implemented for website and new Adviser Portal

Investor and Financial Adviser Service Unit

- New unit established within the Services business to deliver personal service to our existing Bond Owners, to new Direct Investors and to Financial Advisers.

Investment Management Operations

Austock Life undertakes a range of functions of its investment management operations in-house and outsources others.

In-House Investment Management Operations

Internally, these cover day-to-day investment placement and settlement functions for our directly invested investment portfolios, investment transactions with the appointed UMFs, maintaining an analysis of performance data and research, Investment Committee secretarial and report preparation and relationship management with UMF managers and our external investment manager, Mutual Limited (**Mutual**).

Austock Life also internally operates an Investment Committee as a Board sub-committee. It has primary responsibility for overseeing the implementation of our investment processes, and reviewing and approving recommendations from our external investment manager, Mutual.

Outsourced Investment Management Operations

Austock Life has investment management and advisory agreements with Mutual Limited, which fulfils its investment management functions via the services of an appointed Investment Manager.

These arrangements specify the retention of Martin Ryan as Austock Life's appointed investment manager – a role he has occupied since the inception of the business in 2002. Martin is also Austock Group's founder and a former director of Austock Group.

Under this agreement, Mutual's functions also include attending and reporting to Investment Committee meetings, assisting with investment management functions, monitoring and reviewing investment policies and strategies, reviewing and assessing investment portfolio performance and making recommendations on UMF appointments on the Imputation Bond's investment menu.

Mutual is a specialist money market and fixed interest manager for prudentially supervised institutions. It is independently owned with FUM/FUA currently exceeding $2.5 billion.[12] Mutual's investment management and advisory operations cover short-term securities, term deposits, fixed interest, Australian shares, hybrids and foreign exchange.

[12] Mutual was formerly Austock Asset Management Limited and was fully divested by Austock Group in 2009

Austock Life's Capital

Austock Life has a Non-Capital Intensive Model

Austock Life operates a non-capital intensive model:

- The company does not issue risk based life insurance business, nor do we issue (or carry liabilities for) capital guaranteed business or business that carries performance guarantees;
- all of our new business is via the unit linked Imputation Bond platform, which by design passes all investment and liquidity risk to Bond Owners on a Product Disclosure Statement basis;
- This means it entails no internal Benefit Fund Capital requirements and requires only low order Management Fund capital; and
- the Acquired Business is relatively small with the eight Benefit Funds managed (in run-off) with internally maintained capital and reserves.

Capital Management and ICAAP

Austock Life must meet statutory capital requirements imposed under the Life Act. Principally this is by us meeting APRA's Internal Capital Adequacy Assessment Process (**ICAAP**), which came into effect on 1 January 2014.

The objective of our ICAAP is to ensure appropriate capital levels are maintained to meet the requirements of stakeholders including APRA, Bond Owners and shareholders.

Our ICAAP integrates risk and capital management processes, and provides the Board and Management with a framework within which business planning, business targets and day-to-day decision-making is made with consideration of maintaining statutory minimum and target capital levels.

Under our ICAAP we must meet a minimum Prescribed APRA Capital Requirement (**PCR**) plus a Target Capital buffer in our entity level Management Fund in respect of Benefit Funds.

Continuously throughout our most recent ICAAP Reporting Period (1 October 2014 to 30 September 2015), Austock Life met its Target Capital level with a healthy buffer of Excess Assets.

The company's ICAAP must be independently reviewed at least every three years. Our inaugural review was satisfactorily undertaken in March 2016.

Regulatory and Risk Manangement

APRA Supervision of Austock Life

As a prudentially supervised entity, Austock Life operates under the APRA prudential framework with extensive monitoring and reporting to APRA.

We have comprehensive policies and procedures designed to address APRA Prudential Standards and the risk management arrangements for our investment portfolios and management operations.

APRA's Risk Management Regime

Austock Life operates under a comprehensive Risk Management Framework (**RMF**) to identify and manage risks to the life company and risks to investing Bond investors. The main elements of our RMF must accord with APRA Prudential Standards[13] requiring:

- a documented Risk Management Strategy with sound risk management policies, procedures and a review process for risk management, including market risk, liquidity risk, credit risk and operational risk;
- a Risk Appetite Statement that is regularly reviewed and updated to describe the nature and amount of risk that the company is willing to take to achieve its objectives;
- a separately constituted Risk Committee and an appointed Chief Risk Officer under new APRA standards which commenced on 1 January 2015;
- Austock Life to have other documented plans in our RMF, including a Business Continuity Plan and a Compliance Plan.

The adequacy of our compliance with these risk policies and procedures is subject to audit.

[13] APRA Prudential Standards LPS 220 Risk Management

Actuarial Oversight

Under the Life Act, Austock Life must have an Appointed Actuary, who performs a pivotal role in monitoring, reporting and making recommendations on the company's financial soundness, capital position and business plans.

Our Actuary must prepare an annual Financial Condition Report (**FCR**) on the company's financial soundness in terms of its capital (and reserve position) for Austock Life's Management Fund and Benefit Funds. The FCR also covers a range of matters impacting upon capital, including each fund's investment strategy, solvency, reserves, liquidity and new business reserves.

The Actuary also takes a significant role in assisting the company to undertake ongoing reviews of its ICAAP and also provides considerable actuarial oversight, advice, input and component data toward the production of the ICAAP Annual Report.

Whenever Austock Life creates a new product or adds a new Investment Portfolio, the Actuary reviews its profit and capital impact in the context of long-term Actuarial projections and modelling for the business.

Our Actuary, Dr Allen Truslove has held this appointment since Austock Life's licensing in December 2002.

Audit – External & Internal

Austock Life's external auditors are KPMG.

APRA's supervisory regime also requires us to have an Internal Auditor, who functions in accordance with an Internal Audit Plan approved and reported on to our Audit Committee.

Our Internal Audit Plan has fixed review items (i.e. unit pricing, deferred tax asset policy, risk profile) and discretionary/directed reviews (e.g. revenue collection, risk framework reviews).

Remuneration and Succession Plan

Austock Life is required to have a formal Remuneration Committee to oversee the Remuneration Policy that is reviewed annually.

The Remuneration Policy covers the Managing Director, our Directors and all staff that undertake primary risk management, compliance, financial controls or whose roles or activities may affect the financial soundness of the business. The policy addresses remuneration guidelines on fixed remuneration and variable performance based components.

The operation and deliberations of Austock Life's Remuneration Committee also takes into account the Austock Group Remuneration Policy, and particularly arrangements in place for senior management.

In accordance with APRA requirements, Austock Life also has a Board approved (and periodically reviewed) Succession Plan.

Industry and Regulatory Forums

Over 2015/16, Austock Life continued its lead role in our Industry's affairs, principally through the Managing Director being a member APRA's Quarterly CEO's forum and as a longstanding Executive Director of Friendly Societies Australia (**FSA**).

Major activities over 2015/16 were directed to:

- the FSA's ongoing lobbying of the Federal Government to better the taxation arrangements for insurance bonds;
- input into the FSA's submissions to the outcomes of the Murray Financial System Inquiry;
- lobbying on "Objectives of Superannuation" and the implication of the 2016 Federal Budget and Election on our Industry; and
- routine consultation with APRA, ongoing remodelling and changes to our regulatory, risk and capital frameworks.

Concluding

To our Shareholders, many of you who have been with us since Austock Life's incubation within the Group's PDF structure, your patient support with the creating of a strong, and valuable long-term business is greatly appreciated. You have underpinned the foundations of long and mutually rewarding relationships.

Also in closing, special recognition must go to our dedicated and passionate staff. This has been another year of considerable accomplishment, and especially in the uncompromising highest quality service given to our investing Bond Owners and supporting Financial Advisers.

Yours sincerely,

Ross Higgins
Managing Director
Austock Life and Austock Financial Services
29 August 2016


Relationships Built On Strategy

DIRECTORS' REPORT

The directors of Austock Group Limited (the "Company") present the annual financial report for the Group, being the Company and its subsidiaries for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

MR FREDERICK GEORGE ALBION BEAUMONT

(QC LL.B, DIP COM)

Independent Non-Executive Chairman

George was appointed a director on 12 April 2012 and became Chairman on 9 May 2012. He has practised as a barrister for over 40 years. He has an extensive depth of commercial experience gained from advising financial institutions, including life companies and friendly societies, on membership, product development and regulatory matters. George's broader practice specialises in commercial law, taxation, company law, advocacy and advisory work in these areas. George has been a director of Austock Life Limited since July 2002.

MR WILLIAM ERIC BESSEMER

(MBA, B.EC)

Chief Executive Officer and Executive Director

Bill initially joined Austock in 1995 and became chairman of the Group in 1999 until 2010. Following a brief retirement, Bill resumed as a director on 9 February 2012 and became Chief Executive Officer on 29 May 2012. He has over 40 years' experience in banking and finance, specifically in the areas of debt and equity structuring, mergers and acquisitions and business recoveries.

MR ROSS JAMES HIGGINS

(LL.M LL.B B EC.)

Executive Director and Managing Director of Austock Life

Ross was appointed a Group Director on 24 March 2016. He established the Life business in 2001 and originated the Imputation and ChildBuilder Bond products.

He is Managing Director of Austock Life and Austock Financial Services businesses and has over 25 years of financial services experience. He specialises in product development, distribution, marketing, taxation and the regulation of life insurance, superannuation and managed funds.

His career also includes over 10 years as a financial services lawyer and he has had considerable ongoing involvement in legislative reviews and government lobbying on financial services' products, their regulation and taxation.

MR JONATHAN JAMES TOOTH

(B.EC)

Non-Executive Director

Jonathan was appointed a director on 1 May 2012. Jonathan has over 20 years' experience in providing corporate advisory services to ASX listed and unlisted small cap companies. He is a Principal of Henslow Pty Ltd providing specialist expertise in equity capital markets, strategy and planning, and mergers and acquisitions.

Prior to that Jonathan was employed for 10 years as a director of Austock Corporate Finance. Jonathan is also a Non-Executive Director of Vita Life Sciences Limited.

MR MARTIN EDWARD RYAN

(B.COM)

Non-Executive Director

Martin was appointed a director on 20 December 2011 and ceased on 23 November 2015. He is a founder, former director and substantial shareholder of Austock and brings with him over 35 years industry experience in stockbroking and funds management. Martin is presently an executive director of Mutual Limited, a specialist funds management business, and in that capacity advises Austock Life as its Investment Manager.

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the last three years immediately before the end of the financial year are as follows:

Director	Company	Period from	Period to
J J Tooth	Vita Life Sciences Limited	26 Jul 2012	Current

Directors' Shareholdings

The following table sets out the number of each director's relevant interest in shares and options over shares or interest in contracts relating to shares of the Company or a related body corporate as at the date of this report.

Director	Fully paid ordinary shares	Indirect interest in shares
F G A Beaumont	-	273 180
W E Bessemer	-	14 510 220
J J Tooth	8 684	8 578 560
R J Higgins	4 147 851	-

Remuneration of Directors and Senior Management

Information about the remuneration of directors and key management personnel is set out in the remuneration report of this directors' report from page 35.

Chief Financial Officer and Company Secretary

Mr Enzo Silverii CPA, F Fin, ANZIIF (Fellow)

Enzo was appointed Chief Financial Officer on 22 September 2012 and as Company Secretary on 23 April 2013. Enzo has extensive company secretarial experience gained in a range of organisations.

Principal activities

The Group's principal activity in the course of the financial year was as a pooled development fund. No significant change in the nature of this activity occurred during the year. More details on the Group's principal activities are set out on pages 1 to 28 of this annual report, commencing with the Chairman's Report.

Review of operations

The consolidated operating net profit attributable to members is $2,138 thousand (2015: loss of $731 thousand). A review of operations for the Group is set out on pages 1 to 28 of this annual report, commencing with the Chairman's Report.

Change in the state of affairs

There has been no significant change in the state of affairs during or since the end of the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years other than as disclosed in note 24 to the financial statements.

Future developments

The Group's future developments will be underpinned by seeking continued growth in Funds Under Management and Administration while expanding the Group's product suite.

Environmental regulation and performance

The Group's operations are not involved in any activities that have a marked influence on the environment. As such, the directors are not aware of any material issues affecting the Group or its compliance with the relevant environment agencies or regulatory authorities.

Dividends

The company paid a fully franked final 2015 dividend of $0.01 per ordinary share on 30 September 2015 and a fully franked 2016 interim dividend of $0.01 per ordinary share on 31 March 2016.

The company declared a final 2016 dividend of $0.01 per ordinary share fully franked to be paid on 29 September 2016.

Indemnification and Insurance of Officers and Auditors

During the financial year, the Company paid premiums based on normal commercial terms and conditions to insure all directors, officers and employees of the Group against the costs and expenses in defending claims brought against the individual while performing services for the Group. The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy. The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

The Company has entered into a Deed of Indemnity, Insurance and Access with each of its directors Messrs Beaumont, Bessemer, Higgins and Tooth. The purpose of the Deed is to:

- confirm the indemnity provided by the Company in favour of Directors under the Company's Constitution;
- include an obligation upon the Company to maintain adequate Directors and Officers liability insurance; and
- confirm the right of access to certain documents under the Corporations Act 2001.

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director). During the financial year, there were eleven Board meetings held.

Director	Eligible to attend	Attended
F G A Beaumont (a)	11	11
W E Bessemer	11	10
R J Higgins	3	3
J J Tooth	11	11
M E Ryan	4	4

(a) Mr Beaumont is Chairman of the Board of Directors.

Audit Committee

The Audit Committee was formally abolished on 1 May 2012. Refer to the Corporate Governance Statement for further information.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee was formally abolished on 1 May 2012. Refer to the Corporate Governance Statement for further information.

Non-audit services

It is often in the interests of the Group to engage the services of its external auditor to assist in a range of related projects. The directors are aware of the issues relating to auditor independence and have in place policies and procedures to address actual, potential and perceived conflicts of interests in relation to the provision of non-audit related services by its external auditor.

No non-audit services were provided in either the current or prior year.

Auditor's independence declaration

The auditor's independence declaration is included on page 42 of the financial report and forms part of the Directors' Report for the year ended 30 June 2016.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Remuneration Report (Audited)

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Austock Group Limited's directors and other key management personnel for the financial year ended 30 June 2016.

At the Company's last Annual General Meeting in October 2015, more than 75% of votes cast on the resolution to adopt the Remuneration Report were in favour of its adoption.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the directors of the Company and other executives for the Group, and include the most highly remunerated Group executives.

The prescribed details of each person covered by this report are detailed below under the following headings:

a. Director and senior management details

b. Remuneration policies

c. Remuneration of directors and senior management

d. Key terms of employment contracts

Key Management Personnel Details

The following persons acted as directors of the Company during and since the end of the financial year:

- Mr Frederick George Albion Beaumont QC, Chairman and Non-Executive Director.
- Mr William Eric Bessemer, Chief Executive Officer and Executive Director.
- Mr Martin Edward Ryan, Non-Executive Director. *(resigned 23 November 2015)*
- Mr Jonathan James Tooth, Non-Executive Director.
- Mr Ross James Higgins, Executive Director and Managing Director, Austock Life Limited. *(appointed 24 March 2016)*

In addition to the directors noted above, the following persons represent the senior management of the Group during or since the end of the year:

- Mr Ross James Higgins, Managing Director, Austock Life.
- Mr Enzo Silverii, Chief Financial Officer and Company Secretary.

As Managing Director of Austock Life Limited, Mr Higgins is subject to that company's remuneration policy which is overseen by its Remuneration Commitee.

The performance of the Group is highly dependent upon the quality of its directors and executives.

The Board accepts responsibility for determining and reviewing compensation arrangements for the directors, chief executive officer (CEO) and the senior management team. The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

As part of assessing these remuneration arrangements, the Board has in place agreed key performance indicators (KPIs), both financial and non-financial, for each member of the executive team that is duly considered during the performance evaluation process. The KPIs may differ amongst team members based on their area of expertise and the degree to which they have direct control over the outcomes. All KPIs are strategically aligned to advance the Group's business and are tailored to individual executive team members to ensure they each remain motivated and are rewarded within a performance based environment.

Remuneration structure

In line with good corporate governance principles, non-executive directors do not receive performance based pay.

i. Non-Executive director remuneration

Fees and payments to non-executive directors reflect the demands which are made on the directors in fulfilling their responsibilities. Non-executive director fees are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market.

The Constitution of the Company provides that the non-executive directors of the Company are entitled to such remuneration, as determined by the Board, which must not exceed in aggregate the maximum amount determined by the Company in a general meeting. The maximum amount for non-executive directors is $500,000 per annum.

ii. Senior management and executive director remuneration

The Group's executive remuneration program comprises the following components:

Fixed remuneration component; and

Variable remuneration component including both short term incentive (STI) and long term incentive (LTI)

Fixed remuneration

Fixed compensation consists of base compensation as well as employer contributions to superannuation. Compensation levels are reviewed annually through a process that considers individual performance and that of the overall Group.

Variable remuneration – short term incentive (STI)

A short term incentive (STI) is available to executives who achieve both financial and non financial targets as determined by the Board of Directors. The Board of the employing company is responsible for determining who is eligible to participate in STI arrangements as well as the structure of those arrangements. The quantum of available STI arrangements is determined with reference to prevailing market conditions for comparable executives. Short term incentives are payable in cash in the next financial year.

Consequences of performance on shareholder wealth:

In considering the Austock Group's performance and benefits for shareholders wealth, the Board have regard to the following indices in repect of the current financial year and the pevious four financial years.

	FY-12	FY-13	FY-14	FY-15	FY-16
FUM ($m)	301	374	481	587	636
Share price at start of year ($ per share)	0.11	0.11	0.17	0.23	0.43
Share price at end of year ($ per share)	0.10	0.17	0.23	0.43	0.46
Change in share price ($ per share)	(0.01)	0.06	0.06	0.20	0.03
Dividends paid ($'000s)	-	992	1 982	1 983	2 064
Profit attributable to owners of the Company ($'000s)	(16 026)	5 196	(434)	(731)	2 138
Basic EPS (cents per share)	(14.17)	4.75	(0.44)	(0.73)	2.07

Variable remuneration – long term incentive (LTI)

The objective of the LTI plan is to reward senior executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such, LTI entitlements are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against relevant long term performance hurdles.

The only LTI award in place is in favour of Mr Ross Higgins and during the financial year ending 30 June 2016, no changes were made to the LTI plan and no additional awards were made under it.

Details of the LTI award in place and made during the previous financial year ending 30 June 2015 are:

- On 11 May 2015 the company granted Mr Ross Higgins 4,000,000 ordinary shares. This grant was made in consideration Mr Higgins agreeing to the cancellation of a non share proprietary interest held by a deed dated 9 October 2012 between Mr Higgins and the Company.
- The shares were issued at 40 cents each, a 2.5% discount of the prevailing share price at the time of grant. They rank equally with existing ordinary shares, are fully vested and subject to escrow with one third to be released on each of 11 May 2017, 11 May 2018 and 11 May 2019. In the event Mr Higgins leaves the company he is entitled to the entire shares held in escrow.

The value of the benefit of $1,600,000 was fully recognised in the financial statements during the year ended 30 June 2015. There was no further expense in the year to 30 June 2016.

C Equity Holdings of Key Management Personnel

Details of shareholdings of KMP (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned hold significant voting power) are set out below.

Directors	Class	Balance 1 July 2015	Shares Acquired	Shares Disposed	Balance 30 June 2016
2016					
F G A Beaumont	Ordinary	255 680	17 500	-	273 180
W E Bessemer	Ordinary	14 510 220	-	-	14 510 220
M E Ryan	Ordinary	10 922 692	-	-	10 922 692
J J Tooth	Ordinary	8 587 244	-	-	8 587 244
R J Higgins	Ordinary	4 147 851	-	-	4 147 851
2015					
F G A Beaumont	Ordinary	255 680	-	-	255 680
W E Bessemer	Ordinary	14 510 220	-	-	14 510 220
M E Ryan	Ordinary	10 922 692	-	-	10 922 692
J J Tooth	Ordinary	8 587 244	-	-	8 587 244
R J Higgins	Ordinary	147 851	4 000 000	-	4 147 851

Remuneration shown below relates to the period in which the director or executive was a member of key management personnel.

	Short-Term Employee Benefits Salary & Fees	Short-Term Employee Benefits Cash Bonus	Employment Benefits Superannuation	Total	Performance Based Proportion	Annual Leave Entitlements	Long Service Leave Entitlements
2016							
Director							
F G A Beaumont	132 000	-	12 540	144 540	-	-	-
W E Bessemer	25 000	-	2 375	27 375	-	-	-
M E Ryan*	10 417	-	990	11 407	-	-	-
J J Tooth	25 000	-	2 375	27 375	-	-	-
R J Higgins**	505 701	68 493	25 815	600 009	12.5%	91 444	148 685
Sub total	**698 118**	**68 493**	**44 095**	**810 706**	**9.3%**	**91 444**	**148 685**

* Resigned on 23 November 2015

** Appointed as Director of Austock Group Limited on 24 March 2016. Mr Ross Higgins was a member of Key Management Personnel for the full year ending 30 June 2016.

	Salary & Fees	Cash Bonus	Superannuation	Total	Performance Based Proportion	Annual Leave Entitlements	Long Service Leave Entitlements
Other Senior Executive							
E Silverii	156 000	9 132	15 688	180 820	5.5%	9 965	8 225
Sub total	**156 000**	**9 132**	**15 688**	**180 820**	**5.5%**	**9 965**	**8 225**
Total	**854 118**	**77 625**	**59 783**	**991 526**	**8.6%**	**101 409**	**156 910**
2015							
Director							
F G A Beaumont	128 000	-	12 160	140 160	-	-	-
W E Bessemer	25 000	-	2 375	27 375	-	-	-
M E Ryan	25 000	-	2 375	27 375	-	-	-
J J Tooth	25 000	-	2 375	27 375	-	-	-
Sub total	**203 000**	**-**	**19 285**	**222 285**	**-**	**-**	**-**
Other Senior Executive							
R J Higgins	484 000	82 192	26 591	592 783	15.2%	89 662	127 538
E Silverii	145 027	9 132	14 646	168 805	5.9%	10 156	3 989
Sub total	**629 027**	**91 324**	**41 237**	**761 588**	**13.1%**	**99 818**	**131 527**
Total	**832 027**	**91 324**	**60 522**	**983 873**	**10.2%**	**99 818**	**131 527**

Key Terms of Employment Contracts

The Group has entered into service contracts with each senior executive, excluding the CEO and non-executive directors, that are capable of termination with a notice period of between 1 to 12 months. The Group retains the right to terminate a contract immediately by making payment equal to the relevant 1 to 12 month period pay in lieu of notice. The key management personnel are entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of compensation paid to the key management personnel but does not prescribe how compensation levels are modified from year to year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

The directors' report is signed in accordance with a resolution of the directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the directors

F. George. A Beaumont, QC
Independent Non-Executive Chairman
29 August 2016

KPMG

AUDITOR'S INDEPENDENCE DECLARATION

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Austock Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

KPMG

KPMG

Rachel Milum

Rachel Milum
Partner

Melbourne

29 August 2016

KPMG

INDEPENDENT AUDIT REPORT

KPMG

Independent auditor's report to the members of Austock Group Limited

Report on the financial report

We have audited the accompanying financial report of Austock Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 24 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 35 to 41 of the directors' report for the year ended 30 June 2016. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Austock Group Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Rachel Milum

Rachel Milum
Partner

Melbourne

29 August 2016

Austock Group

DIRECTORS' DECLARATION

1. In the opinion of the directors of Austock Group Limited (the "Company"):

   the consolidated financial statements and notes that are set out on pages 46 to 78 and the Remuneration report on pages 35 to 41 in the Directors' report, are in accordance with the Corporations Act 2001, including:

   - giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

   - complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

1. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2016.

2. The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.

On behalf of the directors

F G Beaumont

F. George. A Beaumont, QC
Independent Non-Executive Chairman
29 August 2016

Consolidated Statement of profit or loss and other Comprehensive Income for The Financial Year Ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Revenue	5	7 646	7 030
Personnel expenses	6 (a)	(4 472)	(5 258)
Occupancy expenses		(353)	(346)
Communication expenses		(83)	(86)
Finance expenses	6 (b)	(10)	(14)
Dealing and settlement expenses		(2 072)	(2 062)
Marketing and promotional expenses		(319)	(277)
Depreciation and amortisation expenses	6 (c)	(134)	(136)
Administration expenses		(1 964)	(1 860)
Profit attributable to policyholders, net of tax	12	7 114	18 754
Profit before income tax expense		**5 353**	**15 745**
Income tax benefit	8 (a)	3 899	2 278
Profit after income tax		**9 252**	**18 023**
Profit for the year		9 252	18 023
Profit attributable to policyholders	12	(7 114)	(18 754)
Total comprehensive income/(loss) attributable to shareholders of the company		**2 138**	**(731)**
Earnings Per Share			
Basic (cents per share)	15	2.07	(0.73)
Diluted (cents per share)	15	2.07	(0.73)

The accompanying notes 1 to 24 form part of these financial statements

Consolidated Statement of Financial Position as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Assets:			
Cash and cash equivalents		3 125	2 153
Investments - term deposits		2 054	5 358
Income tax receivable	8 (c)	1 835	908
Trade and other receivables	9	521	556
Other assets		182	255
Plant and equipment		31	101
Deferred tax assets	8 (c)	1 727	135
Intangible assets	10	660	705
Policyholder assets	12	645 750	597 595
Total assets		**655 885**	**607 766**
Liabilities:			
Trade and other payables		159	147
Other liabilities		629	769
Provisions	11	798	780
Policyholder liabilities	12	645 750	597 595
Total liabilities		**647 336**	**599 291**
Net assets		**8 549**	**8 475**
Equity:			
Issued capital	13	34 716	34 716
Retained earnings	14	(26 167)	(26 241)
Total equity		**8 549**	**8 475**

The accompanying notes 1 to 24 form part of these financial statements

Consolidated Statement of Changes in Equity For the Financial Year Ended 30 June 2016

	Issued Capital $'000	Retained Earnings $'000	Total $'000
Year End 30 June 2016:			
Balance at 1 July 2015	34 716	(26 241)	8 475
Total comprehensive income for the year:			
Net profit for the year	-	2 138	2 138
Total comprehensive income for the year	**-**	**2 138**	**2 138**
Dividends paid	-	(2 064)	(2 064)
Total transactions with owners	**-**	**(2 064)**	**(2 064)**
Balance at 30 June 2016	**34 716**	**(26 167)**	**8 549**

	Issued Capital $'000	Retained Earnings $'000	Total $'000
Year End 30 June 2015:			
Balance at 1 July 2014	33 123	(23 527)	9 596
Total Comprehensive Income for the Year:			
Net loss for the year	-	(731)	(731)
Total comprehensive income for the year	**-**	**(731)**	**(731)**
Issue of ordinary shares	1 600	-	1 600
Shares issue costs	(7)	-	(7)
Dividend paid	-	(1 983)	(1 983)
Total transactions with owners	**1 593**	**(1 983)**	**(390)**
Balance at 30 June 2015	**34 716**	**(26 241)**	**8 475**

The accompanying notes 1 to 24 form part of these financial statements

Consolidated Statement of Cash Flows for The Financial Year Ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Cash Flows from Operating Activities:			
Receipts from customers		5 462	4 509
Payments to suppliers and employees		(7 326)	(6 920)
Finance and borrowing costs		(10)	(14)
Income tax benefit received		1 382	1 455
Net cash flows used in operating activities	**21**	**(492)**	**(970)**
Cash Flows from Investing Activities:			
Interest received		246	360
Proceeds from sale of property, plant and equipment		-	284
Payment for property, plant and equipment		(22)	(70)
Proceeds from investments - term deposits		3 304	3 058
Net cash flows from investing activities		**3 528**	**3 632**
Cash Flows from Financing Activities:			
Dividends paid		(2 064)	(1 983)
Net cash flows used in financing activities		**(2 064)**	**(1 983)**
Net increase in cash held		972	679
Cash and cash equivalents at beginning of the year		2 153	1 474
Cash and cash equivalents at end of the year		**3 125**	**2 153**

The accompanying notes 1 to 24 form part of these financial statements

Austock Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents

1 Summary of Significant Accounting Policies

This consolidated financial report for the year ended 30 June 2016 was authorised for issue by the directors on 29 August 2016.

Austock Group Limited (the "Company") is a for profit public company listed on the Australian Securities Exchange (ASX: ACK) incorporated in Australia. The Company operates as a Pooled Development Fund. The Company's registered office and principal place of business is Level 12, 15 William Street, Melbourne, Victoria, Australia, 3000. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primary involved in the provision of Life investment services.

Statement of compliance

The consolidated financial report is a general purpose financial report (Tier 1) which has been prepared in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Basis of accounting

The consolidated financial report has been prepared on the basis of historical cost, except for assets recognised and measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. The Statement of Financial Position is presented is order of liquidity. All amounts has been rounded to the nearest thousand in accordance with ASIC Corporations Instrument 2016/191. Unless otherwise stated, all amounts are presented in Australian dollars, which is the functional currency of the Company and its subsidiaries.

Use of estimates and judgements

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revisions affect both current and future periods. Refer to note 2 for a discussion of critical estimates and judgements in applying the Group's accounting policies and key sources of estimation uncertainty.

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current annual reporting period. Details of these new accounting standards that impacted the Group's financial report are included within the individual accounting policy notes set out below.

1 Summary of Significant Accounting Policies (continued)

Standards and Interpretations issued but not yet adopted

AASB 9 Financial Instruments was issued and introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new requirements for hedge accounting. This standard becomes mandatory for the Company's 30 June 2019 financial statements. The potential impact on adoption is currently being assessed. It is available for early adoption but has not been applied by the Company in this financial report.

AASB 15 Revenue with contracts with customers 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. 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. The Company has started to consider the impact this standard will have on the Company's operations and its financial statements.

A number of other new standards, amendments to standards and interpretations have been issued but have a mandatory effective date for annual periods beginning after 30 June 2016. These have not been applied in preparing these financial statements and none of these are expected to have a significant effect on the consolidated financial statements. The Company does not plan to early adopt any of these new standards, amendments to standards and interpretations.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The consolidated financial report has been prepared on a going concern basis which assumes the realisation of assets and the extinguishment of liabilities in the normal course of business and at the amounts stated in the financial report.

The following significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of Austock Group Limited (the "Company") and the entities controlled by the Company (referred to as the "Group" in these financial statements).

Control is achieved where the parent entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities appears in note 19 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. Transaction costs incurred by the Group in connection with a business combination, such as finders' fees, legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

1 Summary of Significant Accounting Policies (continued)

Austock Life Limited Benefit Funds

A subsidiary of the Company, Austock Life Limited, is a Friendly Society in accordance with the Life Insurance Act 1995.

Under Accounting Standard AASB 1038 Life Insurance Contracts, the consolidated financial statements of the Group, which includes a life insurer, subsidiary are required to recognise all the assets, liabilities, income and expenses of that insurer. This includes policy holders, assets and liabilities, which are not attributable to shareholders of Austock Group Limited.

To ensure the consolidated financial statements of the Group continue to give a fair presentation and promote greater relevance to the Group's shareholders, the assets, liabilities, income and expenses of the benefit funds are disclosed as separate line items on the face of the financial statements:

- statement of profit or loss and other comprehensive income: the net result attributable to policyholders (net of $5.2m tax; 2015: $7.1m) is presented as one line item with an additional line item of an equal amount that attributes this net result to policyholders. Additional details on the individual line items are disclosed in note 12.
- statement of financial position: the total policyholder assets and policyholder liabilities are presented as separate one line items, respectively, in total assets and total liabilities. Additional details on the individual line items are disclosed in note 12.

(a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and in banks (net of outstanding bank overdrafts) and other cash equivalents that are short term, highly liquid investments, readily convertible to known amounts of cash subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of recognition.

(b) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a specific provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(c) Impairment of non financial assets (excluding goodwill)

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, Group assets are also allocated to individual cash-generating units. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(d) Plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is provided on property, plant and equipment and is calculated on either a straight line or diminishing value basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes recognised on a prospective basis. The rates used in the calculation of depreciation for the current and comparative period are as follows:

Category	Rate
Leasehold improvements	20%
Computer equipments	33%
Computer software	20%
Furniture and fittings	20%

(e) Financial instruments

The Group initially recognises trade receivables and term deposits on the date that they are originated as loans and receivables. These are subsequently measured at amortised cost.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against the assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1 Summary of Significant Accounting Policies (continued)

(f) Goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is not amortised and subsequently measured at its cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to the Group's cash generating unit (CGU) Austock Life. The CGU to which goodwill has been allocated is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss for goodwill is recognised immediately in profit or loss and is not reversed in subsequent periods.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(g) Software assets

Software is capitalised by the Group and amortised over its useful life. It is recorded at cost less accumulated amortisation and impairment. A period of three to five years is used in the calculation of amortisation.

(h) Trade and other payables

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods or services. The carriying value of payables are assumed to approximate their fair values due to their short term nature.

(i) Issued capital

Ordinary shares are clasified as equity. Ordinary issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

(j) Revenue

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:

Rendering of services

Revenue from the rendering of services is recognised in the statement of comprehensive income when the service is performed and there are no unfulfilled service obligations that will restrict the entitlement to receive the sales consideration.

Interest income

Interest income is recognised on an accurals basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

1 Summary of Significant Accounting Policies (continued)

(k) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised in respect of temporary differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributable to that asset or liability for taxation purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(l) Employee benefits

Provisions are made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(m) Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Assets held under finance lease are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred. Finance lease assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

1 Summary of Significant Accounting Policies (continued)

(n) Foreign currency

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Austock Group Limited and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences and borrowing costs are recognised in profit or loss in the period in which they arise.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation, its carrying amount and the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be recovered and the amount of the receivable can be measured reliably.

(p) Share based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. The equity instruments provided in these arrangements are equity instruments of the ultimate parent entity, Austock Group Limited.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There are currently no potential ordinary shares in existence.

(r) Segment reporting

The Group operates only in the life insurance sector in Australia.

(s) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

2 Use Of Estimates and Judgement

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following are the significant areas of estimation uncertainty and critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1(c). The recoverable amounts have been determined based on the higher of the value in use and fair value less costs to sell. In the absence of a binding sale agreement or an active market, fair value less costs to sell has been based on an assessment of the best information available to reflect the amount that the entity could obtain from the disposal of these intangible assets in an arm's length transaction between a knowledgeable and willing buyer and seller.

Employee benefits

The liability for employee benefits (annual leave and long service leave) is recognised and measured as the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account. A discount rate equal to the 10 year high quality coporate bond rate has been used in determining the present value of the obligation.

Deferred tax assets

Management uses their judgement in determining the value of carry forward tax losses. Reference is made to forecasts and budgets to ensure the recoverability of tax losses remains probable over the foreseeable future. Tax losses are only recognised as deferred tax assets to the extent that management considers it is probable that there will be future taxable profit available against which the tax losses can be utilised.

3 Financial Risk Management

The Group has exposure to the following risks from the use of financial instruments: Credit risk; Liquidity risk; Market risk; and Insurance risk. This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further disclosures are included in note 22.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has adopted an approved Risk Management Plan, which reflects the Board's commitment to identifying, monitoring and mitigating risks as well as capturing opportunities.

Day to day responsibility for risk management has been delegated to executive management, with review occurring at Board level. The Chief Executive Officer and Chief Financial Officer are required to provide to the Board an annual certification that the Group's risk management system is operating efficiently and effectively in all material respects.

3 Financial Risk Management (continued)

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's capital structure consists of cash, cash equivalents, investments and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in notes 13 and 14 respectively.

A subsidiary of the Group, Austock Life Limited is a life insurer under the Life Insurance Act 1995 and is therefore regulated by the Australian Prudential Regulation Authority (APRA). Austock Life Limited has complied with all regulatory capital requirements during the current and prior financial year.

4 Key Management Personnel

The Directors and other Key Management Personnel of the Group during 2016 were as follows.

Directors

- Mr Frederick George Albion Beaumont QC, Independent Non-Executive Chairman.
- Mr William Eric Bessemer, Executive Director and Chief Executive Officer.
- Mr Martin Edward Ryan, Non-Executive Director.
  (resigned 23 November 2015)
- Mr Jonathan James Tooth, Non-Executive Director.
- Mr Ross James Higgins, Executive Director and Managing Director, Austock Life Limited.
  (appointed 24 March 2016)

Key Management Personnel

- Mr Enzo Silverii, Chief Financial Officer and Company Secretary.

The aggregate compensation made to Directors and other Key Management Personnel of the Group is set out below:

	Consolidated	
	2016 $	2015 $
Short term employee benefits	931 743	923 351
Post employment benefits	59 783	60 522
	991 526	**983 873**

5 Revenue

	2016 $'000	2015 $'000
Revenue:		
Operating activities		
Fee income - Fund administration	352	306
Fee income - Life	6 987	6 407
	7 339	**6 713**
Interest Revenue		
Interest income	187	310
Other income	120	7
Total revenue	**7 646**	**7 030**

6 Expenses

	2016 $'000	2015 $'000
(a) Personnel Expenses:		
Staffing cost	4 172	4 952
Defined contribution superannuation expense	300	306
	4 472	**5 258**
(b) Finance Expenses:		
Interest paid	-	4
Bank and other financing expenses	10	10
	10	**14**
(c) Depreciation and Amortisation Expenses:		
Depreciation of Property, Plant and Equipment		
Computer equipment	63	64
Office equipment	22	22
	85	**86**
Software Amortisation		
Capitalised software	49	50
	134	**136**

7 Remuneration of Auditors

	Consolidated 2016 $	Consolidated 2015 $
Remuneration of the auditor for:		
Audit services		
Auditor review of financial reports of the Group and Group Entities	158 000	158 000
Other Audit - Related Services		
Assurance services	42 000	42 000
	200 000	**200 000**

The auditor of the Group is KPMG (2015: KPMG).

8 Income Tax

	Consolidated 2016 $'000	Consolidated 2015 $'000
(a) Income Tax Recognised in Profit and Loss:		
Income tax benefit / (expenses) comprises:		
Current Tax		
Current income tax benefit	2 307	2 266
Deferred Tax		
Origination and reversal of temporary differences	1 592	12
Total Income tax benefit	**3 899**	**2 278**
(b) Reconciliation of the prima facie income tax expense as pre-tax profit with the income tax expense charged to the income statement:		
Profit before income tax	1 761	3 009
Income tax benefit / (expenses) calculated at 30% (2015: 30%)	528	902
Non deductible expenses	(566)	(230)
Non assessable income	1 488	1 286
Deductible expenses	1 072	1 043
Tax losses recognised as deferred tax assets	1 592	-
Tax losses not recognised as deferred tax assets	(215)	(723)
Income tax benefit recognised in Profit and Loss	**3 899**	**2 278**

At 30 June 2016 neither Austock Group Limited nor any of its controlled entities are members of a tax consolidated group.

8 Income Tax (continued)

	Consolidated 2016 $'000	Consolidated 2015 $'000
(c) Tax Assets:		
Current tax assets comprise:		
Income tax receivable	1 835	908
Deferred tax assets comprise:		
Provision	135	127
Tax losses	1 592	-
Accrued expenses	-	8
Total	**1 727**	**135**

The movement in deferred tax assets for each temporary difference is as follows:

	Consolidated Opening Balance $'000	Consolidated Charged to Income $'000	Consolidated Closing Balance $'000
2016			
Provision	127	8	135
Tax losses	-	1 592	1 592
Accrued expenses	8	(8)	-
	135	**1 592**	**1 727**
2015			
Provision	104	23	127
Accrued expenses	18	(10)	8
Other	1	(1)	-
	123	**12**	**135**

9 Trade and Other Receivables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Trade receivables	130	167
Amounts receivable from other related parties	391	389
	521	**556**

10 Intangible Assets

	Consolidated		
	Software $'000	Goodwill $'000	Total $'000
Gross Carrying Amount:			
Balance at 30 Jun 2014	238	547	785
Additions	36	-	36
Balance at 30 Jun 2015	**274**	**547**	**821**
Additions	6	-	6
Balance at 30 Jun 2016	**280**	**547**	**827**
Accumulated Amortisation:			
Balance at 30 Jun 2014	(66)	-	(66)
Amortisation expense	(50)	-	(50)
Balance at 30 Jun 2015	(116)	-	(116)
Amortisation expense	(51)	-	(51)
Balance at 30 Jun 2016	**(167)**	**-**	**(167)**
Carrying Amount:			
As at 30 Jun 2015	158	547	705
As at 30 Jun 2016	**113**	**547**	**660**

Impairment testing for cash - generating units containing goodwill

For the purpose of impairment testing, all goodwill is allocated to the Austock Life business, which is designated as the Cash Generating Unit for the purposes of evaluating any potential impairment (the "CGU"). The recoverable amounts for the CGU have been calculated based on the value in use, determined by discounting the forcasted future cash flows to be generated from the continuing use of the CGU, covering a period of five years.

Cash flows were projected assuming continuation of the present cost structure.

The key assumptions used in the calculation of the value in use were the discount rate and the terminal value growth rate.

A pre-tax discount rate of 9.2% (2015: 9.7%) was adopted based on the Group's weighted average cost of capital. The terminal growth rate was based on management's estimate of the long term compound annual growth rate of 0.5% (2015: 0.5%). This is compared to an external GDP growth rate of 3.1%.

Changes in the assumptions on which the valuation is based could impact the assessments of the recoverable amount of the CGU. As at 30 June 2016, the impairment testing performed did not result in any impairment as the recoverable amount was estimated to be higher than its carriying amount.

11 Provisions

	Consolidated	
	2016 $'000	2015 $'000
Employee entitlements	644	510
Claims	29	32
Office leasehold restoration	125	125
Transfer of assets and liabilities	-	113
	798	**780**

Employee entitlements

The provision for employee entitlements represents the total benefits accrued to employees for annual leave and long service leave. The calculation of this provision has been performed in accordance with accounting policy note 1(l).

Claims

The provisions for claims relates to the acquisition by Austock Life Limited of Manchester Unity Limited in the 2006 financial year. When Austock Life acquired Manchester Unity, Manchester Unity members were entitled to a $300 once off demutualisation benefit. The provision represents the estimated amounts owing to members who have not claimed their demutualisation benefit at balance date, as calculated by the independent appointed actuary.

Office leasehold restoration

The provision for office restoration represents the estimated cost to vacate and return the leased office premises to the property landlord in satisfaction of its lease agreement. It is expected that the provision will be utilised at lease expiry.

Transfer of assets and liabilities

The provision for transfer of assets and liabilities relates to the transfer of Druids Friendly Society benefit funds and management fund on 1 July 2011.

In 2016, the provision for any future expenses was extinguished as management has determined that it is not longer required.

11 Provisions (continued)

	Consolidated				
	Employee Entitlements $'000	Claims $'000	Office Restoration $'000	Transfer of Assets / Liabilities $'000	Total $'000
2016:					
Balance at 1 Jul 2015	510	32	125	113	780
Made during the year	370	-	-	-	370
Used / released during the year	(236)	(3)	-	(113)	(352)
Balance at 30 Jun 2016	644	29	125	-	798
Total provisions	**644**	**29**	**125**	**-**	**798**
2015:					
Balance at 1 Jul 2014	442	37	125	380	984
Made during the year	306	-	-	-	306
Used / released during the year	(238)	(5)	-	(267)	(510)
Balance at 30 Jun 2015	510	32	125	113	780
Total provisions	**510**	**32**	**125**	**113**	**780**

12 Policyholder Balances

	2016 $'000	2015 $'000
Assets:		
Cash and cash equivalents	5 540	9 708
Other assets	19 251	21 492
Financial assets	616 842	563 000
Deferred tax assets	4 117	3 395
Total Assets	**645 750**	**597 595**
Liabilities:		
Trade and other payables	400	434
Current tax liabilities	5 267	6 611
Other liabilities	19	27
Deferred tax liabilities	4 130	6 156
Policyholder liabilities	635 934	584 367
Total Liabilities	**645 750**	**597 595**
Net Assets	**-**	**-**

12 Policyholder Balances (continued)

	2016 $'000	2015 $'000
Revenue:		
Interest income	5 627	6 799
Distribution income	24 986	26 420
Unrealised (loss) on assets designated on fair value through profit / (loss)	(15 803)	(10 317)
Revaluation of policyholder liabilities	123	71
Realised gains on sale of investments	2 498	7 137
Premium revenue for Life insurance contracts	1	2
Other revenue	322	723
Total Revenue	**17 754**	**30 835**
Expenses:		
Finance expenses	1	1
Dealing and settlement expenses	292	439
Other expenses - benefit funds	57	70
Management fees paid by benefit funds	4 868	4 325
Policyholder withdrawals - insurance	178	162
Total expenses	**5 396**	**4 997**
Net profit before tax	12 358	25 838
Income tax expense	(5 244)	(7 084)
Profit attributable to policyholders	**7 114**	**18 754**

Insurance risk

Insurance risk is the risk that inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Group to financial loss and consequent inability to meet its liabilities.

The Group's objective is to satisfactorily manage these risks in line with the Risk Management Statement approved by the board. In addition, the Group receives advice from the Appointed Actuary, in accordance with APRA Prudential Standard LPS 310.

The key assumptions for the calculations of life insurance contract have been a discount rate based on the expected future earning and future mortality, resignations and retirements.

12 Policyholder Balances (continued)

These assumptions were:

	2016 $'000	2015 $'000
Discount rate	0% to 2.86%	0% to 2.78%
Mortality	Australian Life Tables 2010-2012 less 40%	Australian Life Tables 2010-2012 less 40%
Future maintenance and investment management expense	2% to 2.07%	2% to 2.07%
Taxation rates	30%	30%
Rates of discontinuance	0%	0%
Rates of future supportable participating benefits	Terminal bonus of $164 to $370 per member and bonus on sum assured of 0.80% p.a. compound	Terminal bonus of $164 to $350 per member and bonus on sum assured of 0.72% p.a. compound

For life investment contracts, the policy liability is the accumulation of amounts invested by policyholders less fees specified in the policy plus investment earnings allocated.

13 Issued Capital

	Consolidated 2016		Consolidated 2015	
	Number	$'000	Number	$'000
Issued and Paid Up Capital				
Fully paid ordinary shares	103 188 421	34 716	103 188 421	34 716
Total provisions	**103 188 421**	**34 716**	**103 188 421**	**34 716**

	Consolidated 2016		Consolidated 2015	
	Number	$'000	Number	$'000
Fully Paid Ordinary Shares				
Balance at beginning of financial year	103 188 421	34 716	99 188 421	33 123
Issued during the year	-	-	4 000 000	1 593
Balance at end of the financial year	**103 188 421**	**34 716**	**103 188 421**	**34 716**

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

14 Retained Earnings

	2016			2015		
	Losses S'000	Profit Reserve $'000	Total $'000	Losses S'000	Profit Reserve $'000	Total $'000
Opening accumulated losses	(32 246)	6 005	(26 241)	(31 515)	7 988	(23 527)
Net profit / (loss) attributable to members of the company	-	2 138	2 138	(731)	-	(731)
Dividends paid	-	(2 064)	(2 064)	-	(1 983)	(1 983)
Closing accumulated losses	**(32 246)**	**6 079**	**(26 167)**	**(32 246)**	**6 005**	**(26 241)**

15 Earnings Per Share

	Consolidated	
	2016 Cents per Share	2015 Cents per Share
Earnings per Share:		
Basic	2.07	(0.73)
Diluted	2.07	(0.73)

	2016 $'000	2015 $'000
Earnings Per Share:		
The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:		
Earnings used for basic and diluted earnings per share calculations	2 138	(731)
Weighted average number of ordinary shares for the purposes of basic and diluted EPS	**103 188 421**	**99 736 366**

16 Dividends

The company paid a fully franked final 2015 dividend of $0.01 per ordinary share on 30 September 2015 and a fully franked 2016 interim dividend of $0.01 per ordinary share on 31 March 2016.

	Consolidated	
	2016 $'000	2015 $'000
Recognised Amounts:		
Dividends paid	2 064	1 983
	2 064	**1 983**

In the previous year the company paid a fully franked final 2014 dividend of $0.01 per ordinary share on 24 September 2014 and a fully franked 2015 interim dividend $0.01 per share on 31 March 2015.

Franking credits:

Franking credits available to the Group and subsidiaries based on the tax rate of 30% are as follows:

	2016 $	2015 $
Austock Group Limited	1 263 023	1 718 923
Austock Financial Services Pty Limited	15 016 061	15 444 633
Austock Life Limited	13 867	13 867
Bonds Custodian Pty Limited	24 544	24 544
	16 317 495	**17 201 967**

17 Capital and Leasing Commitments

(a) Leased Premises

	Consolidated	
	2016 $'000	2015 $'000
Non-cancellable operating leases contracted for but not recognised in the financial statements:		
Payable not later than 1 year	290	794
Payable later than 1 year but not later than 5 years	1 285	-
Payable later than 5 years	-	-
Subtotal	**1 575**	**794**
Less amount recoverable not later than 1 year	(35)	(613)
Less amount recoverable later than 1 year but not later than 5 years	(254)	-
	1 286	**181**

The property lease in respect of the Group's Melbourne premises is a non-cancellable lease which expires on 31 May 2021. Part of this lease is sublet to Mutual Limited effective August 2016. Entitlements from the sub-leases are reflected above.

(b) ASX capital commitments

Austock Financial Services Pty Limited (formerly Austock Securities Pty Limited) was a market participant of the Australian Securities Exchange ("ASX") until 5 December 2014. This entity was subject to the market integrity rules, to maintain minimum core liquid capital of $100,000 at all times.

As at 30 June 2016, none of the Group's subsidiaries were ASX market participants.

18 Contingent Liabilities

Banking facilities

A registered mortgage debenture has been given to National Australia Bank Limited over the whole of the assets and undertakings of the Company. The registered mortgage secures the following financing facilities:

- Direct debit facility of $50,000 (2015: $50,000) to be used for client's accounts as part of the Austock Life business; and
- Direct debit facility of $10,000 (2015: $10,000) to be used for client's accounts as part of the Bonds Custodian business.
- NAB credit card facilities of $60,000 (2015: $nil) used by Senior Staff for business travel and client entertainment as part of Austock Financial Services business.

19 Controlled Entities

Name of Entity	Country of Incorporation	2016 Ownership Interest	2015 Ownership Interest
Parent entity			
Austock Group Limited	Australia		
Controlled entities			
Austock Life Limited	Australia	100%	100%
Austock Nominees Pty Limited	Australia	100%	100%
Austock Financial Services Pty Limited	Australia	100%	100%
Bonds Custodian Pty Limited	Australia	100%	100%
Austock Capital Management Pty Ltd	Australia	100%	100%

20 Related Parties

(a) Equity interests in related entities

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 19 to the financial statements.

(b) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements:

- Directors and their family members have invested in the Imputation Bonds Benefit Funds managed by Austock Life Limited. These investments were undertaken on commercial terms. The value of these investments is $88,749 (2015: $223,707).
- A Director of a company that provides investment management services to Austock Life Limited was a director of Austock Group Limited untill 23 November 2015. These services are provided on commercial terms and conditions. The amount paid by Austock Life Limited for 2016 was $361,590 (2015: $364,170).
- A Director and key management person of Austock Life Limited was a Director (ceased 28 October 2015) and Investment Committee member (ceased 30 June 2016) of the company providing investment management services to the company and received fees of $20,000 (2015: $20,000).
- Directors of a company that utilise administration services of Austock Financial Services Pty Limited were Directors of Austock Group Limited . These services are provided on commercial terms and conditions. The amount received by Austock Financial Services Pty Limited for 2016 was $285,273 (2015: $237,275).

(c) Transactions within the wholly owned group

The wholly owned group includes:

- The ultimate parent entity in the wholly owned group; and
- Wholly owned controlled entities.

The ultimate parent entity in the wholly owned group is Austock Group Limited.

During the financial year, the following transactions occurred between the parent entity and its controlled entities:

- The parent entity has provided general management assistance to its controlled entities on normal commercial terms and conditions no more favourable than those available to other parties dealing on an arm's length basis. The total value of the management assistance services provided was $717,366 (2015: $622,337). This is eliminated on consolidation.
- The parent entity has made no new investments (2015: $1,000,000) in controlled entities.

(d) Transactions with other related parties

There were no other transations with related parties for the year ended 30 June 2016 (2015: $nil)

21 Notes to the Statement of Cashflows

	2016 $'000	2015 $'000
Reconciliation of the operating profit / (loss) after tax to the net cash flows from operations		
Profit / (loss) after tax	2 138	(731)
Depreciation and amortisation	134	136
Investment income	(246)	(360)
Share based payment expense	-	1 593
Change in assets and liabilities		
(Increase) / decrease in receivables	35	(206)
(Increase) / decrease in other assets	74	(49)
(Increase) / decrease in income tax asset	(927)	(813)
(Increase) / decrease in deferred tax assets	(1 590)	(12)
(Decrease) / increase in payables	11	(74)
(Decrease) / increase in provisions	19	(204)
(Decrease) / increase in other liabilities	(140)	(250)
Net cash flow used in operating activities	**(492)**	**(970)**

22 Financial Instruments

Excluding policyholder assets and liabilities, there are no financial instruments recognised and measured at fair value. The Group has determined that the carrying values of financial instruments carried at amortised cost approximate fair value. These financial instruments are represented by cash and cash equivalents, trade receivables, term deposits and trade payables, which are short term in nature or are floating rate instruments that are re-priced on or near the end of the reporting period. Accordingly, a fair value hierachy has not been presented.

Financial instruments relating to policyholder balances in the Austock Life Limited Benefit Funds are excluded from this note as there is no entitlement to shareholders of the Group. These are primarily level 1 financial instruments.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from default.

22 Financial Instruments (continued)

Exposure to Credit Risk

The carrying amount of the Group's financial assets represents the Group's maximum exposure to credit risk:

	Consolidated	
	2016 $'000	2015 $'000
Cash and cash equivalents	3 125	2 153
Term deposits	2 054	5 358
Trade and other receivables	521	556
Total	**5 700**	**8 067**

Trade and Other Receivables

The aging of the Group's trade and other receivables and loan assets at balance sheet date was:

	Consolidated	
	2016 $'000	2015 $'000
Not past due	521	556
Past due 1 to 30 days	-	-
Past due 31 to 90 days	-	-
Past due more than 91 days	-	-
Total	**521**	**556**

In determining the recoverability of receivables, the Group considers any change in the credit quality of the receivable from the date recognised to balance sheet date. There are no past due of impaired receivables as at 30 June 2016 (2015: $nil).

(b) Market Risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's exposure is the financial risk of changes with respect to interest rates. The Group manages market risk through sensitivity analysis.

Interest rate risk

Interest rate risk arises from the potential for a change in interest rates to have an adverse effect on the net earnings of the Group. The Group's earnings are affected by movements in market interest rates due to funds held in interest deposit accounts. Interest on borrowings is based on a margin above the negotiated bank base rate.

22 Financial Instruments (continued)

The Group is exposed to interest rate risk as entities in the Group invests at both fixed and floating interest rates. At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	Consolidated	
	2016 $'000	2015 $'000
Fixed Rate Instruments		
Term deposits	2 054	5 358
Net asset / (liability)	**2 054**	**5 358**
Variable Rate Instruments		
Cash and cash equivalents	3 125	2 153
Net asset / (liability)	**3 125**	**2 153**

A change of +/- 1% in interest rates would have increased/(decreased) profit by the amounts shown below:

	Consolidated	
	1% Increase $'000	1% Decrease $'000
30 June 2016		
Variable rate instruments	14	(14)
Total	**14**	**(14)**
30 June 2015		
Variable rate instruments	14	(14)
Total	**14**	**(14)**

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining reserves, banking facilities and by continuously monitoring forecast and actual cash flows.

The Group prepares rolling cash projections which assists in monitoring cash flow requirements and optimising its cash return on investments.

The maximum exposure to liquidity risk at the reporting date was $159 thousand and expected to be settled in three months or less. Other liabilities recognised by the group have no specific maturity date.

23 Parent Entity Disclosures

As at and throughout the financial year ended 30 June 2016 the parent company of the Group was Austock Group Limited.

	2016 $'000	2015 $'000
Results of the Parent Entity		
Profit for the period	597	195
Total comprehensive income for the period	**597**	**195**
Financial Position of the Parent Entity at Year End		
Current assets	3 004	4 357
Total assets[a]	**38 152**	**35 127**
Current liabilities	183	187
Total liabilities	**319**	**317**
Net assets	**37 833**	**34 810**
Total equity of the parent entity comprising of:		
Share capital	34 716	34 716
Capital reserves	29 927	25 435
Accumulated losses	(30 900)	(31 095)
Profit reserve	4 090	5 754
Total equity	**37 833**	**34 810**

a. *Total assets include the value of investments in subsidiaries which are classified as available-for-sale financial assets.*

Parent entity contingencies

Other than the relevant contingent liabilities disclosed in note 18 to the financial statements, the parent entity does not have any contingencies at 30 June 2016 (2015: $nil).

Parent entity capital commitments for acquisition of property plant and equipment

The parent entity does not have any capital commitments to acquire property plant and equipment at 30 June 2016 (2015: $nil).

Parent entity guarantees in respect of its subsidiaries

The parent entity does not have any guarantees in respect of its subsidiaries at 30 June 2016 (2015: $nil).

24 Subsequent Events

The company declared a final 2016 dividend of $0.01 per ordinary share, fully franked, to be paid on 29 September 2016.

Apart from the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Austock Group

ADDITIONAL STOCK EXCHANGE INFORMATION

as at 10 August 2016 (Unaudited)

Number of Holders of Equity Securities

Fully paid ordinary share capital

103,188,421 fully paid ordinary shares are held by 364 shareholders

Fully paid ordinary shares carry one vote per share and carry the right to dividends

Distribution of Holders of Equity Securities

Number of shares held	Fully paid ordinary shares
1 - 1 000	21
1 001 - 5 000	125
5 001 - 10 000	50
10 001 - 100 000	100
100 001 and over	68
Total	**364**
Holdings less than a marketable parcel	21

Substantial Shareholders

Substantial shareholders	Fully paid ordinary shares
Smith Peaco Nominees Pty Ltd	14 510 220
Mr Martin Edward Ryan	10 922 692
Aust Executor Trustees Ltd (Lanyon Aust Value Fund)	10 756 062
Mr John David Wheeler	10 000 000
Mrs Patricia Mary Tooth	8 587 244

Twenty largest holders of quoted equity securities

Ordinary shareholders	Number	Fully paid percentage
Aust Executor Trustees Ltd <Lanyon Aust Value Fund>	10 756 062	10.42
Mr John David Wheeler & Mr Glen Robert Wheeler <Wheelsup S/F A/C>	7 000 000	6.78
Mrs Patricia Mary Tooth	6 792 846	6.58
Smith Peaco Nominees Pty Ltd <The Bessemer Property A/C>	6 639 100	6.43
Mr Martin Edward Ryan	5 892 692	5.71
Candoora No 31 Pty Ltd <Bessemer Super Fund A/C>	5 105 717	4.95
Forty Fifth Decbarb Pty Ltd <M E Ryan Super Fund A/C>	5 000 000	4.85
Mr Frank Gerard Zullo	5 000 000	4.85
Mr Don Lazzaro & Mrs Ann Lazzaro <Super Fund A/C>	4 681 624	4.54
Mr Ross James Higgins	4 137 851	4.01
Australian Shareholder Nominees Pty Ltd	3 906 451	3.79
Onever Pty Ltd	2 765 403	2.68
Mr Paul Masi	2 500 000	2.42
Mr John David Wheeler	2 000 000	1.94
Mr Goh Geok Khim	1 999 600	1.94
TDA Securities Pty Ltd<TDA Securities A/C>	1 880 000	1.82
Guerilla Nominees Pty Ltd<Tooth Retirement Plan A/C>	1 785 714	1.73
Austral Capital Pty Ltd <Austral Equity Fund A/C>	1 500 000	1.45
Mr Enzo Salvatore	1 226 539	1.19
Belabula Consolidated Pty Ltd<Belabula A/C>	1 152 200	1.12
	81 721 799	**79.20**

Securities subject to voluntary escrow

Escrow release date	Number of escrowed shares
11 May 2017	1 333 334
11 May 2018	1 333 333
11 May 2019	1 333 333

On Market Buy Back

There is no current on-market buy-back.

CORPORATE GOVERNANCE STATEMENT

(Unaudited)

In accordance with ASX Listing Rule 4.10.3, set out below are the ASX Corporate Governance Council's eight principles of good corporate governance and the extent to which the Company has sought to comply with the recommendations for each. This statement has been approved by the Board of Austock Group Limited and is current as at 29 August 2016.

Principle 1

Lay solid foundations for management and oversight

This Principle requires the Company to establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

ASX recommendation / disclosure obligation	Company's response
1.1 Disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the Board and those delegated to management	The Board has clear policies and processes to delineate the respective functions, roles and responsibilities of the Board and Management. The Board has adopted a Board Charter that sets out the role, composition and responsibilities reserved by the Board, those delegated to the Chief Executive Officer ("CEO"), and those specific to the Chairman. The conduct of the Board is also governed by the Constitution of the Company. The Board has also adopted a Delegations Policy which formalises and discloses the functions delegated to senior management outside the Board. In fulfilling their duties, each Director and committee member may obtain independent professional advice at the expense of the Company, subject to prior approval of the Chairman, whose approval will not be unreasonably withheld. A copy of the Board Charter and Constitution is available on the Company's website.
1.2(a) Undertake appropriate checks before appointing a person as a director or putting them forward to shareholders as a candidate for election	A range of background checks are conducted upon the appointment of new directors to the Board of Austock Group and its subsidiaries. These include criminal record, bankruptcy, education, character and reference checks.
1.2(b) Provide shareholders with material information relevant to a decision whether or not to elect or re-elect a director	With regards to candidates standing for election or re-election as a director at the Company's annual general meeting, the Company will include in its notice of meeting, information which it considers relevant to a decision whether or not to elect or re-elect the person. This includes biographical details, details of other directorships held, independence status and a statement by the Board as to whether it supports the candidate's election or re-election. Any material adverse information revealed by a background check would also be provided.
1.3 Have a written agreement with each director and senior executive setting out terms of their appointment	The Company has entered into a comprehensive letter of appointment with each of its non-executive directors. Service contracts have also been entered into with the CEO and other senior executives.
1.4 Company secretary should be accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board	The Company Secretary has been appointed to this position by a resolution of the Board. The Company Secretary oversees all board and governance matters and is directly accountable to the Board on matters relating to the proper functioning of the Board.

ASX recommendation / disclosure obligation	Company's response
1.5(a) and (b) Maintain and disclose a Diversity Policy	The Board has adopted a Diversity Policy, a copy of which is available on the Company's website.
1.5(c) Disclose measurable objectives for achieving gender diversity and progress towards achieving them	The Board has not set any measurable objectives for achieving gender diversity as it does not consider it necessary or appropriate while employee numbers remain low. However, as Board and employee vacancies are filled, attention will be given to identifying opportunities for improving gender diversity across the organisation.
1.5(c)(1) Disclose respective proportions of men and women on the board, in senior executive positions and across the whole organisation	The Company provides the following information in relation to the proportion of women employed within the Austock Group: Women in organisation: **44%** Women who are members of key management personnel: **0%** Women on Board: **0%**
1.6 Maintain and disclose process for periodically evaluating the performance of the board, committees and individual directors and disclose whether performance evaluation undertaken during the period	The Board has adopted a Board and Committee Performance Evaluation Policy, a copy of which is available on the Company's website. This Policy outlines the process for evaluating the performance of the Board, its committees and individual directors. A performance evaluation of the Board of the Company's main operating division Austock Life was undertaken during the financial year. It is anticipated that a performance evaluation of the Board of Austock Group will be undertaken during 2017.
1.7 Maintain and disclose process for periodically evaluating the performance of senior executives and disclose whether performance evaluation undertaken during the period	There are four components to evaluating the performance of senior executives. Prior to the commencement of the financial year, a Budget/strategy session is held involving the CEO, Chief Financial Officer ("CFO") and the Managing Director of Austock Life ("MD") and a business plan for the forthcoming year is agreed with the CEO. Annual performance appraisals of the CFO and MD are conducted in June/ July and agreed targets or KPIs are filtered down to individual team members. Biannual reviews are conducted to provide formal feedback to the CFO and MD regarding their individual and team's performance and to plan for the next six months. Performance is regularly reviewed at meetings between the CFO and MD and the CEO. Adopting this process, the performance of senior executives was evaluated during the financial year.

Principle 2

Structure the board to add value

This Principle requires the Company to have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

ASX recommendation / disclosure obligation	Company's response
2.1 (a) Maintain a Nomination Committee	The Company does not presently have a Nomination Committee. Having regard to the current size and composition of the Board, a separate Committee structure is considered to be unnecessary.
2.1(b) Disclose processes it employs to address board succession issues and ensure board has appropriate balance to enable it to discharge its duties and responsibilities effectively	The Board has adopted a Selection and Appointment of Non-Executive Directors' Policy, a copy of which is available on the Company's website. This Policy outlines the procedure for selecting and appointing non-executive directors and for re-appointing incumbent non-executive directors.

ASX recommendation / disclosure obligation	Company's response
2.2 Maintain and disclose a board skills matrix setting out the mix of skills and diversity that the board has or is looking to achieve in its membership	The Board considers that collectively its directors have a level of skill, knowledge and experience that enables the Board to effectively discharge its responsibilities and duties. The directors have extensive experience spanning a diverse range of activities and industries, as set out below. **Expertise** • Financial and taxation • Legal, governance and compliance • Risk management • Strategy • Corporate advisory and business recovery • Product development • Executive leadership • Commercial acumen **Industry Experience** • Financial services • Funds management • Life companies and friendly societies
2.3 Disclose independence of directors, their interests and associations and their length of service	The Board comprises four directors as follows: **George Beaumont** *Independent Non-Executive Chairman* George has been a director of Austock Group since April 2012 and a director of Austock Life since July 2002. **Bill Bessemer** *Chief Executive Officer and Executive Director* Bill is not regarded as independent as he is an executive of the Company and is an associate of a substantial shareholder of the Company. He was a director of Austock Group from 1999-2009 and more recently from February 2012 to the present time. **Ross Higgins** *Executive Director* Ross is not regarded as independent as he is the Managing Director of Austock Life. He has been a director of Austock Group since March 2016 and a director of Austock Life since July 2002. **Jonathan Tooth** *Non-Executive Director* Jonathan is not regarded as independent as he is a substantial shareholder of the Company. He has been a director of Austock Group since May 2012 and prior to that was an employee of the business for over 10 years.
2.4 Majority of Board should be independent directors	The majority of the Board are not independent directors (see 2.3 above). However, the Board is of the opinion that there is an adequate and broad mix of skills and experience amongst the directors such that each is capable of acting in an independent manner and in the best interests of the Company and its shareholders.
2.5 Chair should be an independent director and not the CEO	Mr George Beaumont assumed the position of Chairman in May 2012 and is considered independent. The roles of Chairman and Chief Executive Officer are not held by the same individual.
2.6 Maintain a program for inducting new directors and provide professional development opportunities	The Company does not presently have a formal induction or professional development program for directors. To date, such programs have been considered unnecessary as the current Board has been in place for some time with experienced and skilled directors who are well-acquainted with Austock Group. Consideration will be given to implementing such programs should it be proposed that any new directors join the Board.

Principle 3

Act ethically and responsibly

This Principle requires the Company to act ethically and responsibly.

ASX recommendation / disclosure obligation	Company's response
3.1 Maintain and disclose a Code of Conduct	The Board believes that the success of the Company will be enhanced by a strong ethical culture within the organisation. To this end, the Board has adopted a Code of Conduct, a copy of which is available on the Company's website.

Principle 4

Safeguard integrity in corporate reporting

This Principle requires the Company to have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

ASX recommendation / disclosure obligation	Company's response
4.1(a) Maintain an Audit Committee	The Company does not presently have an Audit Committee. Having regard to the current size and composition of the Board, a separate Committee structure is considered to be unnecessary. In addition, the Company's main operating division Austock Life has its own audit committee which exercises financial oversight over that business.
4.1(b) Disclose processes it employs that independently verify and safeguard the integrity of its corporate reporting including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner	In the absence of an Audit Committee, the Board is responsible for verifying and safeguarding the integrity of corporate reporting. Rigorous processes are employed to ensure Austock Group's financial reports present a true and fair view and that its accounting methods are relevant, comprehensive and comply with applicable accounting rules and policies. The Board is responsible for appointing the external auditor, subject to confirmation by shareholders at the Company's annual general meeting. In selecting an auditor, the Board will implement a selection and assessment process, which takes into account a number of key criteria, including audit approach and methodology, internal quality control procedures, resources, key personnel and cost. The Board will annually review the external auditor's performance and independence. In line with current professional standards, the external auditor is required to rotate Austock audit and review partners at least once every five years.
4.2 Receive a declaration from the CEO and CFO as to the financial statements	Prior to approving the annual and interim financial statements, the Board receives a declaration from the CEO and CFO that in their opinion the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standard and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3 Ensure external auditor attends AGM and is available to answer questions from shareholders relevant to the audit	At the Company's request, the external auditor attends the Annual General Meeting each year and is available to answer questions from shareholders in relation to the audit.

Principle 5

Make timely and balanced disclosure

This Principle requires the Company to make timely and balanced disclosure on all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its shares.

ASX recommendation / disclosure obligation	Company's response
5.1 Maintain and disclose a continuous disclosure policy	The Board has adopted a Continuous Disclosure Policy, a copy of which is available on the Company's website. This Policy reflects the Board's commitment to ensuring that information that is expected to have a material effect on the price or value of the Company's securities is immediately notified to the ASX for dissemination to the market in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

Principle 6

Respect the rights of shareholders

This Principle requires the Company to respect the rights of its shareholders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

ASX recommendation / disclosure obligation	Company's response
6.1 Maintain a website with information about itself and its governance	The Company maintains a website with a dedicated governance section.
6.2 Design and implement an investor relations program	Having regard to the number and nature of its shareholders, the Company does not consider it necessary to have a formal investor relations program. The Company's CEO Bill Bessemer is the Company's primary investor relations contact and actively engages with shareholders throughout the year to facilitate effective two-way communication with them. The views of shareholders are regularly conveyed to the Board.
6.3 Disclose policies and processes in place to facilitate and encourage participation at shareholder meetings	The Company holds its annual general meeting at its registered office in Melbourne. Given the relatively small number of shareholders and the fact that a large proportion are domiciled in Victoria, the holding of meetings across multiple venues and the use of technology such as live webcasting has been considered unnecessary to facilitate greater shareholder participation in meetings. Shareholders may ask questions about or make comments on the management of the Company ahead of any annual general meeting. These questions or comments will be addressed at the meeting.
6.4 Give shareholders the option to give and receive communications electronically	Through the Company's share registry Boardroom Pty Ltd, shareholders may elect to receive certain communications electronically.

Principle 7

Recognise and manage risk

This Principle requires the Company to establish a sound risk management framework and periodically review the effectiveness of that framework.

ASX recommendation / disclosure obligation	Company's response
7.1 (a) Maintain a Risk Committee	The Company does not presently have a Risk Committee. Having regard to the current size and composition of the Board, a separate commitee structure is considered to be unnecesary. In addition, the Company's main operating division Austock Life has its own risk committee. It is comprised of four Austock Life non-executive directors, three of whom are considered independent, and its Chairman Eric Barr is an independent director.
7.1(b) Disclose the processes it employs for overseeing the Company's risk management framework	To comply with APRA Prudential Standards, Austock Life has recently appointed a Chief Risk Officer to oversee Austock Life's risk management framework. The Chief Risk Officer will also oversee Austock Group's risk management framework. In accordance with the Company's Risk Management Program, Management undertakes an exercise of identifying and prioritising its material business risks. These risks are documented in a Risk Register and, where the level of risk is considered to be above the desired level, an action plan is developed to address and mitigate the risk. Risks, the effectiveness of mitigation strategies and the overall management system are regularly reviewed by Management to ensure changing circumstances do not alter the risk priorities.Management reports to the Board on the effectiveness of the Company's management of its material business risks.
7.2 Review the risk management framework at least annually to satisfy itself that it continues to be sound and disclose whether a review has taken place during the period	The Board is confident that the Group's risk management framework is sound. Coinciding with the recent appointment of the Chief Risk Officer, a comprehensive review of the risk management framework is underway to effect enhancements to the risk management program and framework.
7.3 Disclose whether it has an internal audit function, how it is structured and what role it performs	The Company itself does not have an internal audit function. However, Austock Life maintains an independent internal audit function. The role of internal auditor is fulfilled by Dennis Clark who reports directly to the Austock Life Audit Committee. The internal auditor provides services in accordance with an internal audit plan approved by the Audit Committee each year.
7.4 Disclose whether the Company has any material exposure to economic, environmental and social sustainability risks and how it manages those risks	The Company has no material exposure to environmental or social sustainability risks. The Company considers that it faces a medium level of risk to economic conditions adversely impacting on the Austock Life business through reduced sales volumes and reduced growth in FUM. A number of key controls and management strategies are in place to mitigate this risk including: • a financial adviser strategy-based distribution model with strong financial adviser relationships • an expansive investment menu with 33 portfolio options (including cash and tax paid term deposits options) and the ability to switch between options • healthy funds' growth and inflows • a product structure where the investment risk is carried by investors.

Principle 8

Remunerate fairly and responsibly

This Principle requires that the Company to pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for shareholders.

ASX recommendation / disclosure obligation	Company's response
8.1(a) Maintain a Remuneration Committee	The Company does not presently have a Remuneration Committee. Having regard to the current size and composition of the Board, a separate Committee structure is considered to be unnecessary. In addition, the Company's main operating division Austock Life has its own remuneration committee which makes recommendations in relation to the remuneration of the directors and employees of that business.
8.1(b) Disclose the processes it employs for setting level and composition of remuneration for directors and senior executives and ensuring that it is appropriate and not excessive	A Remuneration Report, which sets out information about the remuneration of the Company's directors and senior executives for the financial year is included in the Directors' Report.
8.2 Disclose policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives	The Company distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Non-executive directors are remunerated by way of fees in the form of cash, non-cash benefits and superannuation contributions. Typically, they do not receive options, bonus payments or shares from the Company. Non-executive directors do not normally participate in schemes designed solely for the remuneration of executives. Executive directors and senior executives' packages generally comprise fixed and performance-based remuneration components. The Company does not currently operate any equity-based remuneration schemes. A Remuneration Report, which sets out information about the remuneration of the Company's directors and senior executives for the financial year is included in the Directors' Report.
8.3 Disclose, if it has an equity-based remuneration scheme, its policy on participants entering into transactions which limit the economic risk of participating in the scheme	Not applicable – the Company does not currently have any equity-based remuneration schemes.

Austock Group

Corporate Information

Founded in 1991, Austock Group Limited is an ASX listed company that operates as a registered Pooled Development Fund specialising in providing development capital to financial sector businesses.

Company Directors

Mr Frederick George Albion Beaumont
Independent Non-Executive Chairman

Mr William Eric Bessemer
Chief Executive Officer

Mr Jonathan James Tooth
Non-Executive Director

Mr Ross James Higgins
Executive Director and Managing Director of Austock Life

Chief Financial Officer and Company Secretary

Enzo Silverii

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Sydney NSW 2000

Banker

National Australia Bank
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Melbourne VIC 3000

Auditor

KPMG
147 Collins Street
Melbourne VIC 3000

Appointed Actuary for Austock Life

Allen L Truslove
Actuary and Statistician

Level 2, 710 Collins Street
Melbourne VIC 3000

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