ClearView Wealth Limited

# Half Year Condensed Consolidated Financial Report

for the six months ended 31 December 2015

ClearView

# Directors' Report

The Directors of ClearView Wealth Limited (ClearView or the Company) submit herewith the Condensed Consolidated Financial Report of ClearView and its subsidiaries (the Group) for the half year ended 31 December 2015. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

## Directors

The names of Directors of the Company who held office during the half year ended 31 December 2015 and up to the date of this report are shown below.

- **Dr Gary Weiss** (Chairman)
- **Andrew Sneddon**
- **Bruce Edwards**
- **David Brown**
- **Gary Burg**
- **Jennifer Newmarch**
- **Michael Alscher**
- **Michael Lukin** (Alternate to Mrs Newmarch)
- **Nathanial Thomson**
- **Simon Swanson** (Managing Director)

The above named Directors held office during and since the end of the half year unless otherwise stated above.

## Principal activities

ClearView is an Australian financial services company with businesses that specialise in life insurance, wealth management and financial advice solutions.

## Operating and Financial Review

This operating and financial review report, which forms part of the Directors' Report, sets out information about the Group for the half year ended 31 December 2015.

### ClearView Business

ClearView generates its revenue through the provision and distribution of life insurance, superannuation and investment products, and through the provision of financial advice and support services to financial advisers. ClearView continues to position itself as a highly focussed challenger brand operating in specific profitable segments. ClearView is implementing a high growth strategy with the goal of attaining 5% of the long term life insurance profit pool, building a material wealth management business and a high quality financial advice business. The Group operates three business segments: Life Insurance, Wealth Management and Financial Advice.

### Life Insurance

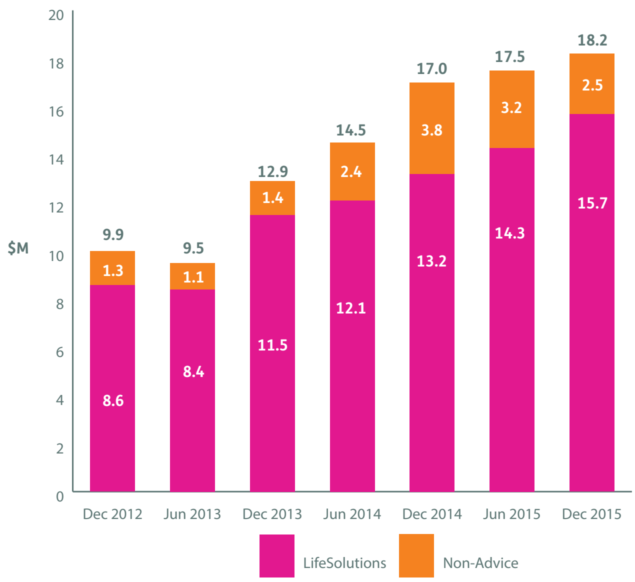
ClearView creates products that compete in both the Advised and Non-Advice (Direct) segments of the $14.9 billion[1] Australian life (risk) insurance market. ClearView competes in a subset of this broader market and in particular the individual risk market (excluding group life) that is circa $9 billion[1] or 60% of the total market.

While life insurance risk in-force premiums have grown for some time, underlying industry profitability growth has been more subdued driven by the issues related to group life (in which ClearView does not participate), the income protection component of the Advised market and lapses. Industry participants have progressively increased prices over the last few years in both the group life and income protection segments, with the corrective price action taken being positive for the long term sustainability of the industry. The increased prices in Group Life has improved the competitive position of retail life insurance products. While lapses appear to have stabilised, new business generation has slowed across the industry given regulatory uncertainty. ClearView, as a focussed niche operator, has continued to outperform the market and has generally avoided these core industry issues to date.

ClearView provides a flexible integrated life and wealth offering to financial advisers and strategic partners, aiming for top tier products, strong service and relationships.

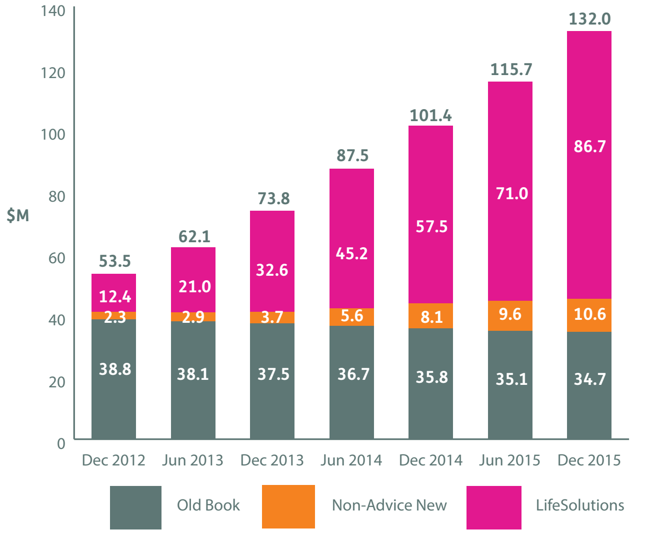
The following graphs reflect the step change in the growth profile of ClearView's life insurance business:

### New Business Written - Life Insurance




1 Source: Plan for Life, retail life insurance (risk) survey, in-force and growth YOY to 30 June 2015.

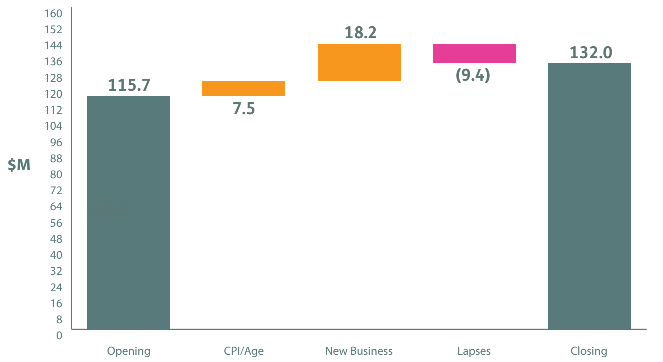
## In-force Premium - Life Insurance




As at 31 December 2015, ClearView has total in-force life insurance premium of $132 million (+30% on prior comparable period) and has generated new business premium of $18.2 million over the six month period to 31 December 2015 (+7% on prior comparable period). ClearView currently has a circa 1.3%[1] market share of inforce premium but a 3.5%[1] share of new business in the individual life insurance market and is therefore growing substantially faster than system.

The following graph reflects the movement in in-force premium from $115.7 million (as at 30 June 2015) to $132 million over the six months to 31 December 2015:

## YTD In-force Movement - Life Insurance



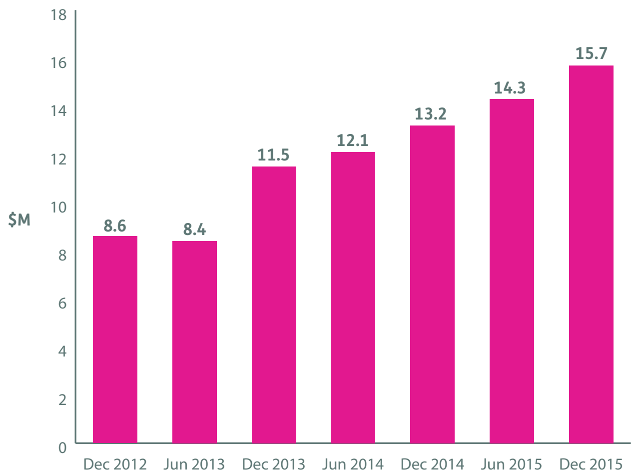

The growth of in-force premium has been driven by the strong new business growth (as noted earlier), with lapses partially offset by age based premium increases and inflation (CPI) increases on insurance benefits.

### (a) Advised Life Insurance

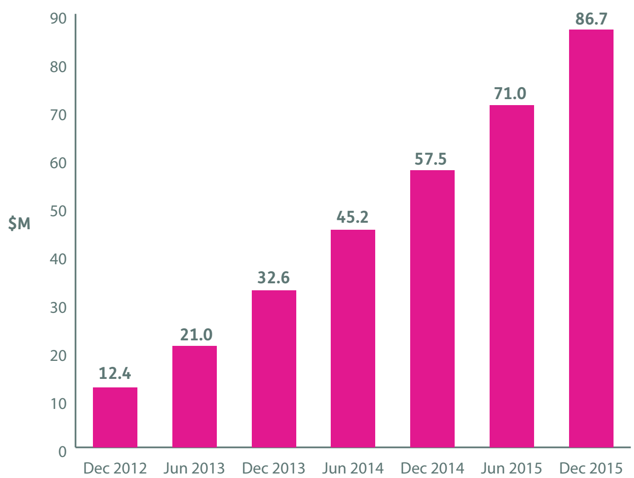
The Advised Life market segment comprises life insurance products placed by financial advisers. The ClearView product suite, branded LifeSolutions, was launched in December 2011 and is a high quality advice based product suite, providing top quartile benefits and terms at market competitive prices. LifeSolutions includes term life, permanent disability, trauma and critical illness benefits, child cover, parent cover, income protection and business expense cover. Policies can be issued directly from ClearView Life Assurance Limited (ClearView Life) or via the ClearView Retirement Plan (our superannuation fund).

The following graphs reflect the step change in the growth profile of LifeSolutions that was launched in December 2011:

## New Business Written - LifeSolutions




## In-force Premium - LifeSolutions




1 Source: Plan for Life, retail life insurance (risk) survey, in-force and growth YOY to 30 June 2015.

# Directors' Report

## Continued

LifeSolutions has continued to strongly outperform the market with new business increasing to $15.7 million for the half year ended 31 December 2015 (+19% over the prior comparable period). LifeSolutions in-force premium is $86.7 million as at 31 December 2015 (+51% over the prior comparable period), and now represents 66% of ClearView's total life insurance in-force book.

The advised market has been challenged in more recent times given the proposed life insurance reforms and the related implications on adviser remuneration. The following table outlines the proposed life insurance reforms, observations and potential impacts if these are implemented as proposed:

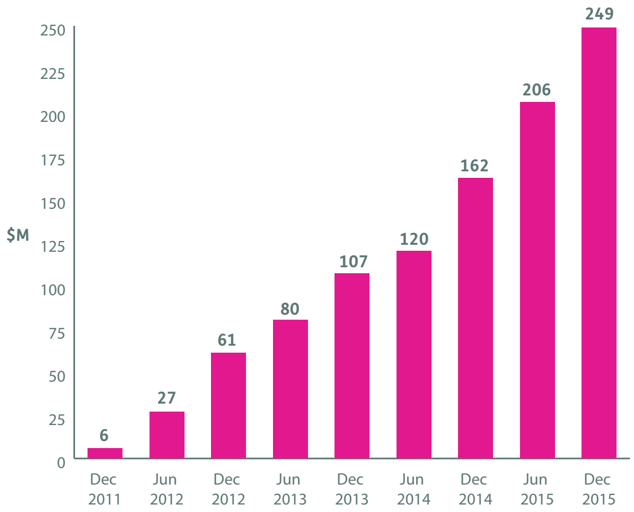
| | Description of Potential Regulatory Reform | Trends | Expected Impact on ClearView |
|---|---|---|---|
| **Adviser Remuneration** | • Limits on upfront remuneration arrangements from 1 July 2016 with transitional arrangements;<br>• Maximum upfront commission of 80% from 1 July 2016, reducing to 60% by 1 July 2018;<br>• Maximum ongoing commission of 20% in all subsequent years from 1 July 2016;<br>• Two year clawback of commissions to commence from 1 July 2016; 100% in Yr 1, 60% in Yr 2;<br>• Decreased incentives for policy churn | ↑ | • Improves upfront capital strain to life insurer, increased return on equity (albeit potentially lower profit margins);<br>• Consider how best to support advisers with resulting income strain |
| **Open Architecture** | • 'Open architecture' approach to APLs; government has requested industry to consider measures to widen APLs through the development of a new industry standard (led by the FSC);<br>• APLs can currently be limited to a small number of products;<br>• Opening of APLs and the removal of shelf space fees would maximise choice available to clients and aligns to best interest duty | ↑↑ | • ClearView achieves a >5% market share in its core IFA market (sub segment of the individual market);<br>• Would materially widen the ClearView distribution reach given increased access to APLs, in particular the top 50 APLs |
| **Volume/ Shelf Fees** | • Volume based payments/ rebates (also linked to lapse/ persistency bonuses) to be banned from 1 July 2016;<br>• Appropriate grandfathering to be aligned with FOFA laws | ↑ | • Would be beneficial to ClearView given it has not paid volume based payments/ rebates to financials advisers to date |
| **Code of Conduct** | • Life Insurance Code of Conduct to be developed by 1 July 2016; best practice standards for insurers<br>• Explicit focus on client best interests | ↑ | • Limited impact; ClearView supports approach and believes it complies in substance and form |
| **Adviser Training** | • Move towards requirement for increased adviser training | — | • Limited impact; ClearView to facilitate appropriate training platforms as required |

The proposed life insurance regulatory reforms are therefore likely to benefit ClearView overall, with the most favourable reform being the potential opening up of Approved Product Lists (APLs). This would enable ClearView to materially expand its distribution reach given that APLs can currently be restricted to a small number of products.

ClearView has 221 financial advisers (including 85 Matrix advisers) many of whom provide life insurance products to their clients (including LifeSolutions). ClearView's life insurance products are also placed across Australia through third party dealer groups (providing ClearView access to a broad base of financial advisers), with LifeSolutions products being included on 249 Approved Product Lists as at 31 December 2015 (up 54%). ClearView continues to expand its distribution reach with 59% of LifeSolutions new business coming from third party APLs (that is, non ClearView/Matrix dealer groups) in the six months to 31 December 2015 which is up 35% on 1H FY15. This is reflective of the quality and competitiveness of the LifeSolutions product.

The following graph reflects the step change and focus of ClearView on broadening its distribution reach on third party APLs:

## Third Party APLs




ClearView's appeal to the independent adviser market is summarised as follows:

- Compelling product offer (top quartile product rated by research houses);
- Non institutionally owned, leading advocate for the independent financial adviser;
- Stability of pricing , single pricing series (lack of legacy issues);
- Protected income on commissions;
- Agile – ability to respond quickly to change; and
- Accessible Senior Management Team and Board.

In 1H FY16, ClearView focussed on the following key operational activities:

- Investment in systems to improve back office efficiency including the launch of the data warehouse, automation of commissions (shift to weekly payments to advisers) and commencement of the correspondence project to improve client engagement;
- Data warehouse dependency to upgrade adviser interaction including the development of the adviser portal that allows in-force policy and lapse reporting to advisers (to be launched in 2H FY16); and
- Focussed on the further expansion of distribution to the broader IFA market: 59% of new business was generated from non-aligned advisers (third party APLs), up 35% on 1H FY15; number of APLs has increased by 54% to 249.

### (b) Non-Advice (Direct) Life Insurance

The Non-Advice (Direct) Life market segment encompasses products that are purchased directly by consumers. This can include life insurance products sold through direct marketing, telemarketing, call centre referrals or online.

ClearView acquired a profitable in-force Non-Advice portfolio (circa $41 million) in June 2010 with strong cash flow generation (from its predecessors of NRMA Life and MBF Life). The in-force portfolio had no intermediated business and was predominantly written through the NRMA and MBF referral channels. ClearView refers to this block of business as the "Old Book". The Old Book is largely closed to new business (minor sales and policy increases only) and its strong cash flow generation (including the recovery of prior acquisition costs incurred to acquire the in-force book) is being invested in growth by partly funding the strong growth in the LifeSolutions new business premium being written. As at 31 December 2015, the Old Book's in-force premium was $34.7 million. This is a 3% decline year on year; noting that it takes time to run off given age based and CPI premium increases.

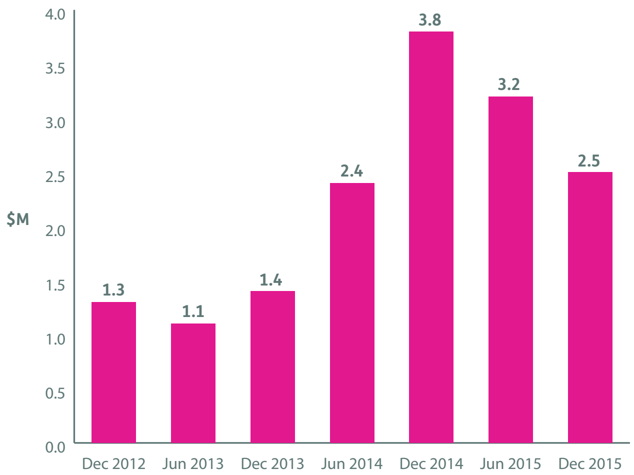
ClearView has an exclusive distribution agreement with Bupa Australia, Australia's second largest private health insurer. This allows ClearView to distribute Non-Advice (Direct) Life products to the Bupa Australia customer base.

From FY14, ClearView commenced investing in the Non-Advice (Direct) business:

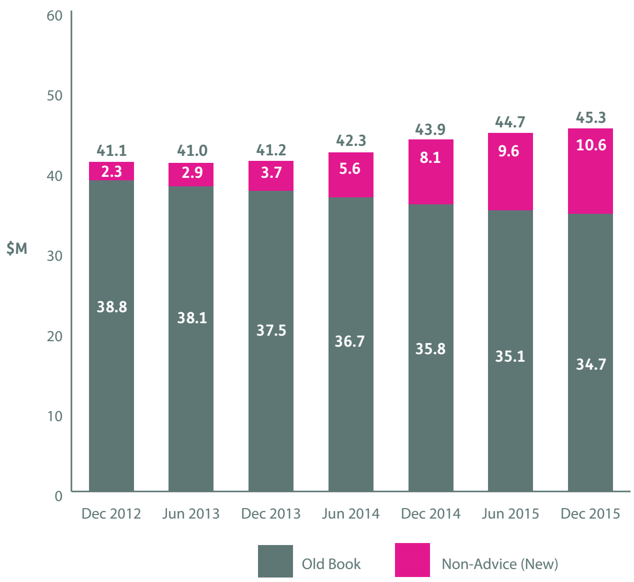
- Recruited a new direct life team;
- Built out a direct call centre and capability in Parramatta;
- Built out volumes (FY15) by improving strategic partner penetration and widening distribution by targeting lead generation sources aimed at the lower socio-economic segments; and
- Made an investment in Your Insure, a start-up operation in Melbourne, in August 2014 to further target selling direct life insurance to the lower socio demographic customer with the intention of providing a lower cost access point to this market segment.

The following graphs reflect the change in the in-force premium and new business generation of the Non-Advice business, broken down between the Old Book and new Non-Advice products sold since 2011:

### New Business - Non-Advice (Direct)




### In-force Premium - Non-Advice (Direct)




As previously outlined to the market, there was an intended slowdown in volume growth in the Non-Advice business over the 12 months to 31 December 2015, given the continued adverse lapse experience in the warm lead referral channel (lower socio demographic market). ClearView had agreed to provide funding to Your Insure which was structured as a Convertible Note. Given the structural shift in the lower socio demographic market and impacts on profitability (adverse lapses), the Board decided to cease funding Your Insure in the 1H FY16. As a result of the above, the investment in Your Insure has been written off, with a net of tax cost of $1.9 million being incurred. ClearView had always considered this as a test – of trying to profitably service the lower social demographic – and rather than continue top line growth in the Non-Advice business, ClearView has decided to commence exiting this market and thereby focus on the profitable segments.

The Non-Advice new business therefore decreased to $2.5 million for the half year ended 31 December 2015 (-34% over the prior comparable period), thereby causing a drag in overall life insurance new business growth. This strategic decision was made to align with the overall shift in focus of the business to the mid-market segment and the more broader exit from the warm lead referral channels given the following:

- Adverse lapse rates and propensity to churn given the affordability issues of the lower socio demographic;
- Customer outcomes have the potential to fall short of expectations given lack of understanding at point of purchase and short duration of products;
- This is not consistent with ClearView values and customer focussed culture; and
- Reduces ClearView's regulatory risk: low value insurance is a regulatory focus as recently shown in CCI and funeral plan products.

The decision to focus, in the medium term, on the mid-market segment of the Non-Advice (Direct) Life market, reflects the following:

- ClearView's client focussed culture;
- Long term decision making ability to drive value creation;
- Value due to a lack of legacy issues that would impact on decision making;
- Flexibility and adaptability of its business to market changes; and
- A willingness to innovate and test new markets.

ClearView is therefore refocusing its direct life insurance business to target mid-market consumers, reorganising the operations to deliver operational and sales efficiency, and position the business to address the market post the introduction of the proposed life insurance reforms. This includes potentially supporting IFAs manage and service their less profitable clients. ClearView will continue to explore a number of opportunities to broaden its strategic partner relationships with companies that have values aligned to ClearView.

### Wealth Management

ClearView provides wealth management products via four primary avenues:

- Master Trust - Life investment contracts issued by ClearView Life. Products include ordinary savings, superannuation and allocated pension products, with the latter two provided via the ClearView Retirement Plan. These continue to operate under a bundled fee structure;
- WealthSolutions - A superannuation and retirement income wrap (issued via the ClearView Retirement Plan) and an Investor Directed Portfolio Service (IDPS) Wrap. This is offered via the WealthSolutions platform which was launched in December 2011. WealthSolutions includes a menu of approximately 250 investment funds, ASX listed shares, term deposits and 7 ClearView managed funds. It also provides a number of model portfolios managed by ClearView for superannuation investors and a recently launched Separately Managed Account (SMA) platform;
- WealthFoundations - Life investment contracts issued by ClearView Life. Products include superannuation and allocated pension products, issued via the ClearView Retirement Plan. This is offered via the WealthFoundations platform which was launched in October 2014. WealthFoundations includes a menu of 15 investment options with transparent investment in underlying fund managers; and
- Managed Investment Schemes (MIS) - Products are issued via ClearView Financial Management Limited (CFML) as the ASIC licensed Responsible Entity and include MIS products available on ClearView's WealthSolutions platform.

The ClearView Master Trust accounts continue to gradually roll off given that the product is not actively marketed to new members and that there is a large component of the book in the pension phase. The WealthSolutions product is aimed at higher end wrap clients (>$250K investable funds) and therefore addresses the higher end, wrap segment of the retail market. The more recently launched WealthFoundations product is aimed at smaller account balances integrated with a life insurance cross sell opportunity.

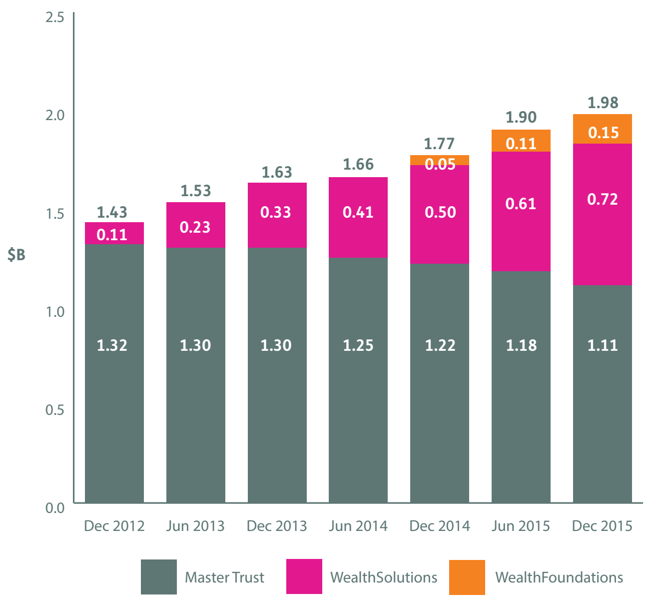
ClearView has in-force FUM of $1.98 billion as at 31 December 2015 (+12% on the prior comparable period), with $0.87 billion in new products launched. ClearView is $101 million net flow positive in 1H FY16; representing a significant improvement in net flows over prior periods (was in net outflow of circa $150 million in FY11 and FY12 post the acquisition of the businesses). Overall this reflects:

- WealthSolutions net inflows of $113 million (+55% on the prior comparable period); in-force FUM of $0.72 billion (+44% on the prior comparable period);
- WealthFoundations net inflows of $47 million (-10% on the prior comparable period); in-force FUM of $0.15 billion (+200% on the prior comparable period); and
- Master Trust net outflows of $58 million (-41% on the prior comparable period); in-force FUM, including closed MISs, of $1.1 billion (-9% on the prior comparable period).

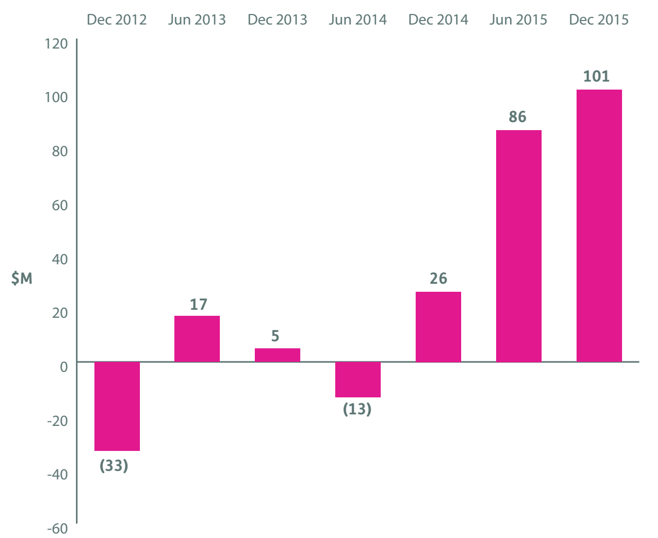
Net outflows in the Master Trust product were partially offset by the positive performance of investment markets in FY15. Given the volatility of investment markets, investment performance was broadly neutral in 1H FY16 resulting in the decrease of the Master Trust FUM without any offset from positive investment performance over the half year period. The performance of investment markets therefore plays a key part in "holding up" the Master Trust FUM, given that this is effectively a closed book with a portion of the FUM in the pension phase. The Master Trust FUM is being replaced by lower margin new business written in the WealthSolutions and WealthFoundations products due to the more competitive pricing of the new contemporary products.

The overall FUM and net flows including the positive performance of the Wealth Foundations product launched in 2014 are reflected in the graphs below:

## FUM




## Net flows




ClearView's wealth management products are currently distributed primarily by ClearView Financial Advice Pty Limited (CFA) and Matrix Planning Solutions Limited (Matrix or MPS). ClearView has further strengthened its adviser support through the merger with Matrix that has the ability to deliver significant revenue synergies given ClearView's market proven products. CFA and Matrix dealer groups have 221 financial advisers most of whom recommend wealth management products and services to their clients. Following the launch of WealthFoundations, ClearView is expected to expand its distribution reach by achieving recognition of the newly launched product on third party APLs (that is, expand the wealth distribution outside of the CFA and Matrix dealer groups). ClearView's WealthFoundations products are now included on 4 APLs at 31 December 2015. ClearView's appeal to the independent adviser market includes the following:

- In-house competitively priced product;
- Experienced in house research team providing unbiased implemented models and research;
- Non-institutionally owned;
- In-house business implementation, support and training;
- Agile - ability to respond quickly to change; and
- Accessible Senior Management Team and Board.

Opportunities for growth in the independent adviser market include the following:

- Convergence of life insurance and superannuation has opened new distribution opportunities with WealthFoundations;
- Leverage off current LifeSolutions distribution agreements/relationships; and
- Wealth product design that provides efficiency and profitability for the adviser.

In 1H FY16, ClearView focussed on the following key operational activities:

- Further incremental investment in the new contemporary platform to improve back office efficiency and automation; and
- The investment in the upgrade of WealthSolutions, including the addition of SMAs. The upgrade improved the position of the platform with a broad cross section of advisers and clients, including better servicing SMSF accounts. The enhanced WealthSolutions product significantly enhances the ease by which advisers can upgrade clients from older platforms to the new WealthSolutions product (subject to clients best interests).

## Financial Advice

ClearView provides financial advice services through its wholly owned subsidiaries, CFA and Matrix.

Overall the financial advice industry has faced significant challenges, particularly in light of the regulatory uncertainty, the proposed life insurance reforms (and related impacts on adviser remuneration) coupled with a heightened media focus that has had an impact on the confidence of advisers, their businesses and consumers.  Furthermore, the FoFA reforms continue to be implemented with the more recent introduction of the best interests duty documentation requirements, financial adviser register and implementation of the opt in legislation.

In the vast majority of cases, if the proposed life insurance reforms are implemented, given the change in the remuneration model for advisers, there is likely to be a significant upfront income and funding strain on the financial adviser, especially for those businesses that do not have large in-force books.  It is therefore inevitable, that some financial advisers will elect to withdraw from the industry.  The impacts of these changes on the financial viability of non-vertically integrated dealer groups also requires consideration. The removal of shelf space fees, volume bonuses and the like coupled with the reduction in upfront commissions and the consequential impact on dealer group "splits" will have a detrimental impact on the financial viability of many dealer groups and the ability of the dealer group to provide quality support services to financial advisers and their practices.

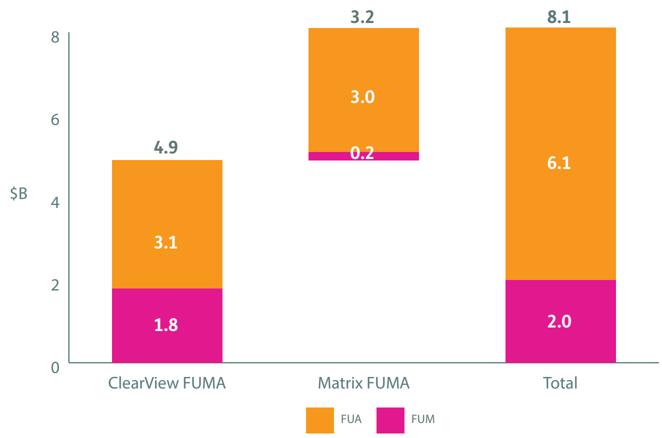
The focus on quality of advice remains key to the long term success (client retention and compliance) of advice businesses. The regulatory framework has to date supported vertically integrated players with the tightening regulatory environment creating barriers to entry. ClearView is positioning itself as an advocate for strategic advice, and has the ability to reposition itself, including how best to support its advisers within these regulatory changes.

The number of financial advisers in CFA has increased to 136 as at 31 December 2015, representing an increase of 4% over the prior comparable period.  In addition, Matrix has a total of 85 advisers as at 31 December 2015, raising the total for the Group to 221 which is consistent with the adviser numbers at 30 June 2015. The recruitment focus remains selective with a focus on quality rather than quantity.

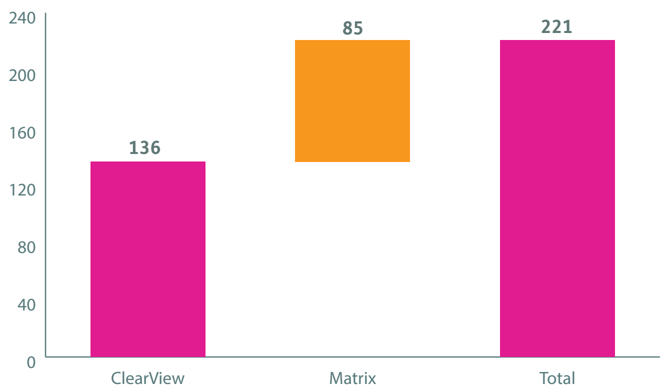
CFA and Matrix have approved product lists (APLs) that include third party product providers, LifeSolutions, WealthSolutions and WealthFoundations. CFA's APL also includes the Master Trust products.  The integration of Matrix continues to proceed to plan with migration of Matrix adviser practices onto the ClearView adviser CWT system (that is, common processes) now complete.

As at 31 December 2015, the financial advice segment (CFA and Matrix) has funds under management and advice (FUMA) of $8.1 billion and life insurance in-force premiums under advice (PUA) of $203 million. This is reflected in the key performance metrics outlined below, as at 31 December 2015.

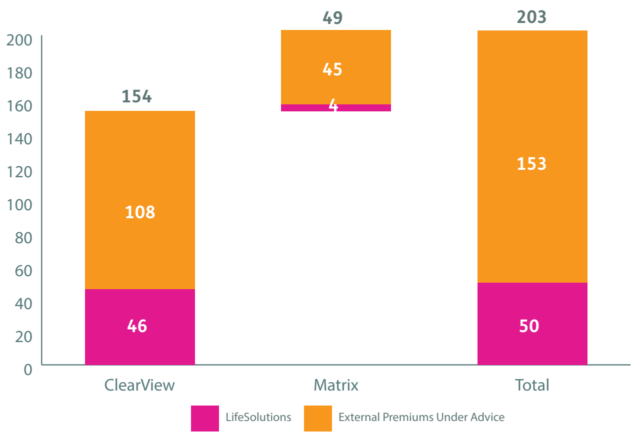
### Funds Under Management and Advice (FUMA)




### Financial Advisers



## Premiums Under Advice (PUA)




As at 31 December 2015, of the $8.1 billion FUMA in-force, $0.72 billion is in WealthSolutions, $0.15 billion in WealthFoundations and $1.1 billion is in the Master Trust product. As at 31 December 2015, of the $203 million PUA in-force, $50 million is in LifeSolutions.

In 1H FY16, ClearView focussed on the following key operational activities:

- Completed the migration of the remaining Matrix practices onto the common platform;
- Continued to focus on recruiting high quality advisers who have the right cultural fit for CFA and Matrix. Quality over quantity remains the key focus; and
- Compliance focus including a shift to strategic advice given regulatory changes.

Key focus areas as ClearView continues to invest for growth include:

- A focus on the further development and roll out of best of breed strategic advice processes across the Matrix and CFA dealer groups; and
- The achievement of Matrix performance based targets over time.

## Risks

ClearView's activities expose it to a variety of risks, both financial and non-financial. Risk management is an integral part of ClearView's management process. For details on Risk Management please refer to Note 5 of the 30 June 2015 Annual Report on page 89.

## Strategy

ClearView continues to implement a high growth strategy with the goal of achieving 5% of the long term life insurance profit pool, building a material wealth management business and a high quality financial advice business. Underlying and supporting these objectives, and to build profitability, ClearView's key execution focuses are:

1. To continue to expand its distribution presence across the independent financial adviser (IFA) and direct channels (with a focus on the mid-market segment):
   - Support a high quality support network with real responsiveness;
   - Produce flexible products that meet consumer and adviser needs; and
   - To provide a "home" for genuinely independent financial advisers.
2. Target profitable markets with new innovative product offerings:
   - Operate as a nimble player enabling speed to market; and
   - Operate an engaged and proactive culture focussed on meeting customer and adviser needs.
3. Improve the efficiency and reach of its operations to expand margins over time:
   - Investment in automation and efficiency continues; ongoing investment in technology should allow ClearView to become more efficient in the near term; and
   - An intense focus on key service elements.

ClearView has entered the next phase of growth given the successful execution of a three year build strategy to FY15. The next phase of growth for ClearView remains a focus over the next 12 to 18 months, with key initiatives as follows:

- **Life Advice**: Launching an improved adviser portal and front end with the aim of driving increased ease of doing business for IFAs; consistent with the objective of being seen as the quality home for leading IFAs and the further broadening out of distribution to the wider IFA market.
- **Non-Advice (Life)**: Refocusing of business to target mid-market consumers, reorganising the operations to deliver operational and sales efficiency, and position the business to address the market post the introduction of

the proposed life insurance reforms, including potentially supporting IFAs manage and service their less profitable clients. ClearView will continue to explore a number of opportunities to broaden its strategic partner relationships with companies that have values aligned with ClearView.

- **Wealth Management**: Investment in 1H FY16 in the upgrade of WealthSolutions, including the addition of SMAs. The upgrade improved the position of the platform with a broad cross section of advisers and clients,including better servicing SMSF accounts. This significantly enhances the ease by which advisers can upgrade clients from older platforms to WealthSolutions.

ClearView remains focussed on driving towards fairer competition in the life insurance market, and in particular, the opening of APLs currently restricted by vertically integrated institutions. The proposed regulatory reforms that the government is currently considering has the potential to significantly decrease the barriers to ClearView selling through the non-aligned channels, which is consistent with the government's focus on clients best interest.

## Outlook

The long term market growth fundamentals remain sound:

- Life Insurance: the Australian market is under-insured, driven by low levels of insurance penetration; and
- Wealth Management: the long-term growth is underpinned by the compulsory saving regime for super (retirement savings) - superannuation contribution guarantee is to be increased from the current 9.5% of income to 12% (by July 2025).

Short term there are a number of changes occurring in the Life Insurance market:

- Pricing Cycle: industry participants have progressively increased prices (materially) over the last few years in both the group life and income protection segments; this makes the core ClearView products more price competitive; and
- Regulatory Changes: these are likely to start being implemented from 1 July 2016. The proposed changes generally move towards more open competition and assist a challenger brand such as ClearView (which is customer focussed).

Life Insurance and Wealth Management are complementary products over the economic cycle:

- Life Insurance: favourable given "fear" can drive strong sales momentum; and
- Wealth Management: potential negative impacts of the performance of investment markets on fee income and net investment flows in the short term. ClearView portfolios remain defensively tilted given the nature of the client base.

ClearView remains in a strong position to continue growth, given the complementary nature of life insurance and wealth management products over the economic cycle, with a particular focus on:

- Gaining from market disruption around life insurance reforms with a potential stepped change in distribution profile, especially if certain parts of the proposed reforms are implemented;
- Potential to benefit from the increased pricing cycle, in particular in the income protection market; and
- Increase scale over time thereby progressively reducing the expenses overruns. These will be absorbed as the business grows to scale over the medium term.

A strategic decision was made in 1H FY16 to shift the focus of the Non-Advice risk business to the mid-market segment given the adverse lapse experience in the lower socio demographic segment and related impact on profitability. This is likely to have an adverse impact on new business volumes in the Non-Advice business in the short term albeit the key growth driver, LifeSolutions, continues to increase its market share, outperform the market and has reflected strong growth period to period.

While ClearView remains a high growth company (relative to the in-force portfolio) it will likely require net capital funding; the Debt Funding Facility may be replaced with one or more longer term capital solutions as the need for, and quantum of, longer term capital funding emerges and the final form of the life insurance reforms are implemented (given the potential reduced capital strain).

ClearView has now established a strong platform to drive momentum and has in the first half started to convert its strategic positioning into material earnings growth.

# Directors' Report

Continued

## Financial Results

### Overview of Result

The Group has achieved the following results for the half year ended 31 December 2015 (commentary that follows is based on the shareholder view[2]):

| | FY15 | | FY16 | % Change |
|---|---|---|---|---|
| | 1H | 2H | 1H | |
| Life Insurance | 7.3 | 8.0 | 12.1 | ↑ 66% |
| Wealth Management | 1.1 | 0.7 | 1.3 | ↑ 18% |
| Financial Advice | 1.9 | 2.5 | 0.7 | ↓ (63%) |
| **BU Operating Earnings (after tax)** | **10.3** | **11.2** | **14.1** | **↑ 37%** |
| Listed Entity and Other | (0.4) | (0.2) | (0.2) | ↓ (50%) |
| **Total Operating Earnings (after tax)** | **9.9** | **11.0** | **13.9** | **↑ 40%** |
| Interest expense on corporate debt (after tax) | 0.0 | (0.4) | (0.5) | Large |
| **Underlying NPAT** | **9.9** | **10.6** | **13.4** | **↑ 35%** |
| Other Adjustments | 2.3 | (1.3) | (1.2) | Large |
| **NPATA[1]** | **12.2** | **9.3** | **12.2** | **— 0%** |
| Amortisation | (4.5) | (4.5) | (4.6) | ↑ 2% |
| **Reported NPAT** | **7.7** | **4.8** | **7.6** | **↓ (1%)** |
| Underlying diluted EPS (cps) | 1.89 | 1.96 | 2.44 | ↑ 29% |
| Reported diluted EPS (cps) | 1.47 | 0.89 | 1.38 | ↓ (6%) |

Underlying NPAT (UNPAT) is the Board's key measure of profitability and the basis on which dividends are determined. This measure consists of reported net profit after tax, adjusted for the amortisation of intangibles (not including capitalised software), the effect of changing discount rates on the insurance policy liabilities and any costs considered unusual to the Group's ordinary business activities (for example, the Your Insure write off in 1H FY16).

Total Operating Earnings after Tax (Operating NPAT) represents the UNPAT of each of the operating business unit before taking into account the interest costs associated with corporate debt. The Debt Funding Facility was implemented in December 2014, with $45.5 million drawn down as at 31 December 2015. The UNPAT in 1H FY16 therefore includes the after tax interest expense of $0.5 million, being the costs associated with the capital funding structure of ClearView and have been separated out within underlying earnings.

Operating NPAT has increased by $4 million (+40%) and UNPAT has increased by $3.5 million (+35%) compared with that for the half year ended 31 December 2014. This is reflective of strong earnings growth and transition of ClearView from its "build phase" to its "growth phase".

1 NPATA is reported net profit after tax adjusted to exclude the non-cash amortisation of acquired intangibles (not including capitalised software).

2 Shareholder view excludes the life investments contracts (i.e. unit linked business) and deconsolidates retail unit trusts and reflects fees earned by the shareholder less expenses incurred.

The first half FY16 result includes the impacts of key decisions to support the medium term growth and longer term strategy:

- Restructure of the senior management team (and consequential downstream staff changes) to shift the focus of the business from the "build" to the "growth" phase (upfront termination costs of $0.6m (net of tax) in 1H FY16);
- Intentional slowdown in non-advice new business, in particular the direct life insurance channel that targeted lower socio economic customers. This decision was driven by the adverse lapse experience ($0.5m after tax lapse loss impact in 1H FY16) and led to a 34% decline in new business volumes to $2.5m and a drag on the overall life insurance Value of New Business (VNB) (negative VNB of $2.9m in non-advice in 1H FY16); and
- The material investment in FY15 in new wealth products and contemporary platform with the growth and development costs starting to now be supported by FUM as these products build to scale over time.

This is analysed by operating segment in further detail below:

- Life Insurance Operating NPAT of $12.1 million, is up 66%; reflective of the emergence of profit from the growth in the underlying in-force portfolios. The Life Insurance segment is the key profit driver, most mature segment and demonstrating strong J-curve economics;
- Wealth Management Operating NPAT of $1.3 million, is up 18%; reflective of the positive impacts on net fee income given the increase in FUM (+12%) but partially offset by the margin compression from the gradual run-off of the Master Trust FUM that is being replaced by lower margin new business written in the WealthSolutions and WealthFoundations products. Furthermore, there is a positive impact from a tax benefit arising from superannuation insurance premium deductions that is captured in the wealth segment. The impact of the migration costs provisioned in 1H FY15 is predominantly offset by the incremental development, software amortisation and growth costs for the WealthFoundations product and new platform that only commenced being incurred post launch in October 2014;
- Financial Advice Operating NPAT of $0.7 million, down 63%; reflective of the impact on the CFA dealer group, in particular the net effect of part of the dealer group support costs now being directly allocated to CFA and no longer being partially absorbed by the Life Insurance segment. Furthermore, there is the impact of the run off of the 50bps internal advice fee earned by CFA off the Master Trust FUM and an increased cost base. The increased cost base (outside of the annualised impact of Matrix and the allocation of dealer group support costs), was predominantly driven by the further investment in adviser support services to support a larger adviser base in the merged businesses. These adverse impacts on the CFA result were partially offset by an increased Operating NPAT contribution from the Matrix dealer group of $0.2 million in 1H FY16 (merger was completed in October 2014); and
- Listed Operating NPAT of -$0.2 million, up $0.2 million and reflects the interest income on the cash equivalents held in the listed and central services entities and in the shareholders fund of ClearView Life Assurance Limited, the Group's life insurance subsidiary, less the costs associated with maintaining a listed entity. The tax expense is predominantly driven by the non-deductibility of the Executive Share Plan Expense that is absorbed in the listed segment.

Reported diluted earnings per share for the half year reduced from 1.47 cents per share to 1.38 cents per share (-6%) and fully diluted UNPAT per share for the half year increased from 1.89 cents per share to 2.44 cents per share (+29%). The reported EPS calculations when compared period to period have been adversely impacted by the increase in shares issued under the DRP coupled with the Your Insure write-off ($1.9 million after tax) and the changes in long term discount rates used to determine the insurance policy liabilities between periods. Fully diluted Operating NPAT per share for the half year increased from 1.89 cents per share to 2.54 cents per share (+34%). This removes the impact of the debt funding costs between periods and is therefore reflective of the emergence of material earnings growth over the half year period.

Overall the result reflects:

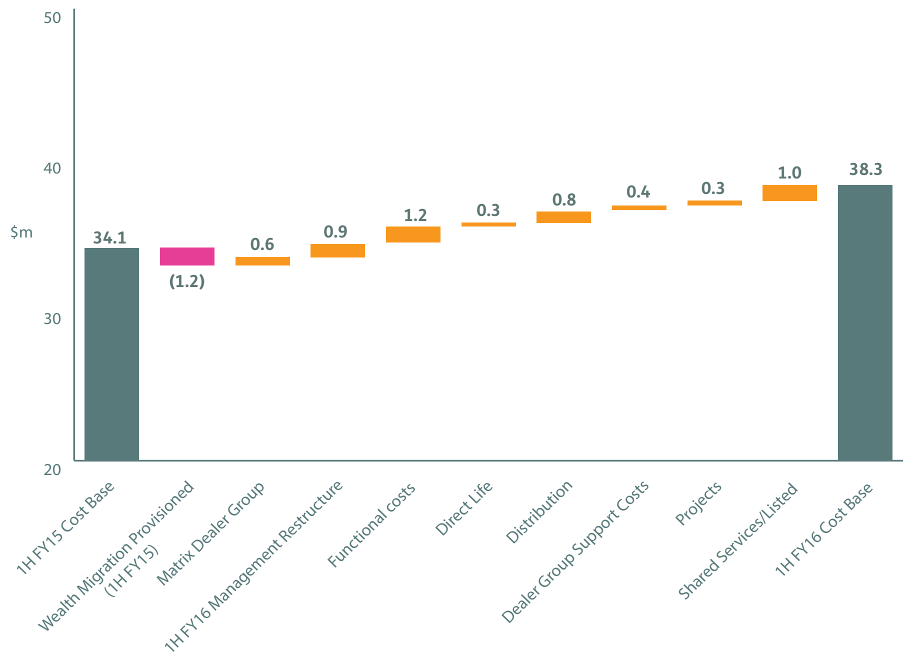
- Strong growth in life insurance - the growth of LifeSolutions has continued in 1H FY16, with new business premium growing at 19% over the prior year. Distribution for LifeSolutions has expanded further, with 59% of LifeSolutions new business being generated from third party APLs, up 35% on 1H FY15. This is reflective of the intentional broadening out of the distribution base with LifeSolutions now on 249 APLs, up 54% on 1H FY15. LifeSolutions in-force premium is $86.7 million as at 31 December 2015 (+51%), representing 66% of the total life insurance in-force book. The new Non-Advice life insurance business has shown an intentional decline in new business volumes with a shift in focus away from the lower socio demographic to the mid-market segments. Strategic Partner new business is up 14% to $1.3 million, with sales to the lower socio demographic reducing to $1.2 million (down 54%). The new Non-Advice in-force book is $10.6 million (+30%); with the old book in-force premium of $34.7 million (-3%) as at 31 December 2015;

- Key experience items on the life insurance result are as follows:
  - Positive impact of claims experience profit of $1.7 million (after tax) relative to the expected claims cost. This claims experience variation follows the positive claims experience in 1H FY15 of $0.1 million;
  - The adverse impact of life insurance lapses being higher than the rate assumed in the life insurance policy liability (determined as at 30 June 2015) with an experience loss of $0.2 million (after tax) (lapse experience loss of $0.2 million in 1H FY15). The experience loss in 1H FY16 includes the adverse impacts from the new Non-Advice business of $0.5 million in the half-year period; and
  - The negative impact of non-deferred expense experience being the investment ahead of earnings (expense overruns) with an experience loss of $0.9 million (after tax) (compared to expense experience loss of $2.2 million in 1H FY15).

    Further details on these experience items (including expenses) are provided in the analysis below.

- FUM has been positively impacted by positive net flows (FUM + 12% compared to 31 December 2014) in a difficult investment market. Investment performance has been broadly flat over the period. As noted earlier in the report, the performance of investment markets plays a key part in "holding up" the Master Trust FUM, given that this is effectively a closed book with a portion of the FUM in the pension phase. WealthSolutions continues to build to scale coupled with the launch of WealthFoundations in October 2014 that now has $152 million of FUM at 31 December 2015. This is demonstrating the positive impact of the material investment in the new Wealth product in FY15. Funds management fees have increased by 3% which reflects the margin compression and related reduction in average fee rates across the in-force book.
- FUMA in the CFA and Matrix dealer group's is $8.1 billion (+9% on prior comparable period) and Premiums Under Advice of $203 million (+27% on prior comparable period). Net financial planning fees are up 21% predominantly driven by the annualised impact of the Matrix merger and LifeSolutions volume based payments paid to the CFA dealer group in 1H FY16 but partially offset by the run off of the 50bps internal advice fee earned off the Master Trust FUM.
- Increases in the operating cost base over the half year period (+12%). The key drivers of the operating expense base increase from 1H FY15 to 1H FY16 is illustrated in the graphs below:

## 1H FY15 vs 1H FY16 Cost Base



# Directors' Report

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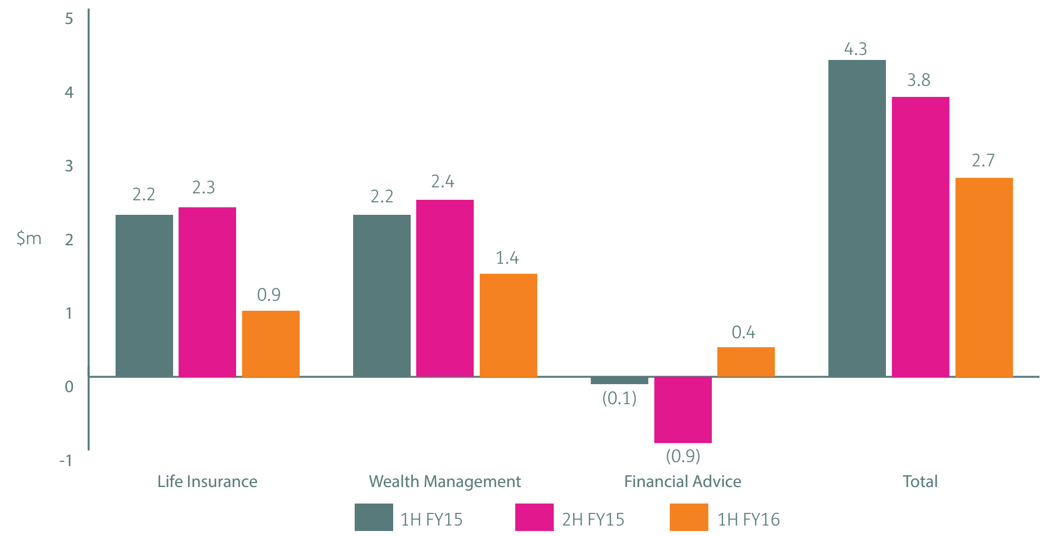
Key explanations of the movements follow:

- Reduction in Wealth Migration provisioned (1H FY15) (-$1.2 million) - This is predominately as a result of the provision for migration expenditure incurred in 1H FY15. No further migration costs have been incurred in 1H FY16;
- Matrix Dealer Group (+$0.6 million) - These reflect the costs related to the annualised effect of the Matrix dealer group given the acquisition was completed on 10 October 2014 (three months of additional Matrix dealer group costs incurred in 1H FY16);
- 1H FY16 Management Restructure (+$0.9 million) - These costs relate to the upfront restructure cost incurred in 1H FY16 for the management changes implemented in October 2015, with savings expected to flow through from 2H FY16. The management restructure and related changes were made given the shift in focus of the business from the "build" to the "growth" phase. The costs incurred also include the consequential downstream staff changes;
- Functional costs (+$1.2 million) - These relate to increases in the functional areas to support the growth in the business, including administration, call centre, claims and underwriting costs. These reflect the growth in the underlying volumes period to period. These costs also include the growth and development costs, software amortisation and other functional costs that relate to the new wealth platform system that commenced being incurred in 1H FY15 post the launch of WealthFoundations; this increase is partially offset by the completion of the amortisation of the first phase of software costs associated with the launch of LifeSolutions in FY12;
- Direct Life (+$0.3 million) - The non-advice business has shifted its focus from gross sales, to improving lead quality, customer retention and ultimately improving lapse rates. Costs have increased due to the setup of the integrated customer retention function. This has been partially offset by a reduction in sales agent and related costs given the reduced volumes;
- Distribution (+$0.8 million) - The distribution/front end costs include the option cost associated with ESP shares issued to financial advisers and the continued build out of the business development team. The initial focus of the BDMs through the growth phase is on broadening out the distribution of the product, which will change the mix of adviser support over time as further critical mass in new business is achieved. Distribution also includes the increased investment in the Wealth Management "front end" to further support the growth of the business post the launch of WealthFoundations in 1H FY15;
- Dealer Group Support Costs (+$0.4 million) - predominantly relates to the further investment in adviser support services to support a larger adviser base in the merged businesses (albeit there was a partial benefit from the transition of employed planners into the self-employed model). This includes the set up of a standalone compliance team in the dealer group in 2H FY15;
- Projects (+$0.3 million) - These costs relate to the net increase in project costs expensed between periods, predominantly driven by the implementation of a new desktop IT system across the business in 1H FY16; and
- Shared services/Listed (+$1.0 million) - Shared services cost increases and business support costs should reduce "per customer" as the scale of the business increases. This includes the "spreading" of the costs of the shared services functions as the business grows. The main driver for the increase was IT infrastructure and support costs, additional group compliance costs and general overhead, partially offset by reduced marketing costs.

The current level of costs being incurred during the business's current growth phase exceeds the long term expense assumptions adopted. This includes an investment in incremental costs above what is required for the current scale of ClearView (expense overruns) to build capability for the future. Market competitive premium and fee rates implicitly support market average participant (scale) expense rates. Expense margins available are therefore proportional to new business written and in-force revenues. As ClearView continues to grow, these expense overruns are likely to continue to be absorbed and should achieve further operating leverage. Expense overruns depress initial reported profits; these should unwind as scale is achieved, thereby increasing underlying profit realised through the in-force portfolios. In the half year to 31 December 2015, the non-deferred expense overruns across the business had a negative impact on UNPAT of $2.7 million (1H FY15: $4.3 million). The movements between segments are reflected in the graph over the page:

## BU Non-Deferred Expenses Overruns (after tax)




Overall, the decrease in non-deferred expense overruns from $4.3 million to $2.7 million (-37%) reflects the efficiencies gained through increased scale benefits (period to period), albeit with some movement between segments given certain allocation of expenses. This implies that the non-deferred expense overruns are starting to unwind given the material "J Curve" investment was completed in FY15 (as previously reported to the market). Given the current size of the in-force business, these overruns are predominantly driven by:

- Life Insurance - the initial "deep" investment in LifeSolutions and the Direct Life business from FY12 to FY14;
- Wealth Management - the growth and development costs (WealthFoundations and the new wealth platform) that should reduce over time as the busienss builds to scale and the Master Trust FUM is migrated onto the new platform; and
- Financial Advice - driven by the further investment in adviser support services (across the broader group) to support a larger adviser base in the Matrix and CFA businesses.

The elimination of expense overruns, coupled with the growth ambitions of the business, remains a key focus of management and the Board. The following table reconciles the operating expenses analysed above to the Reported Operating Expenses line in the Annual Financial Statements:

| Reconciliation of Operating Expenses to Reported Operating Expenses Per Annual Financial Statements | 1H FY16 $m | 1H FY15 $m |
|---|---|---|
| Operating expenses per waterfall (Page 14) | **38.3** | **34.1** |
| Custody and Investment Managment Expenses | 3.7 | 3.5 |
| Depreciation and Software Amortisation | (2.2) | (1.8) |
| Reinsurance Technology Costs | 0.3 | - |
| Stamp Duty | 2.2 | 1.6 |
| Medical Costs | 0.6 | 0.5 |
| Interest expense | 0.8 | - |
| Other Variable Direct Lead Generation Costs | 0.3 | - |
| Matrix Deal and Integration Costs | - | 1.8 |
| Operating expenses per half year financial statements | **44.1** | **39.7** |

# Directors' Report

Continued

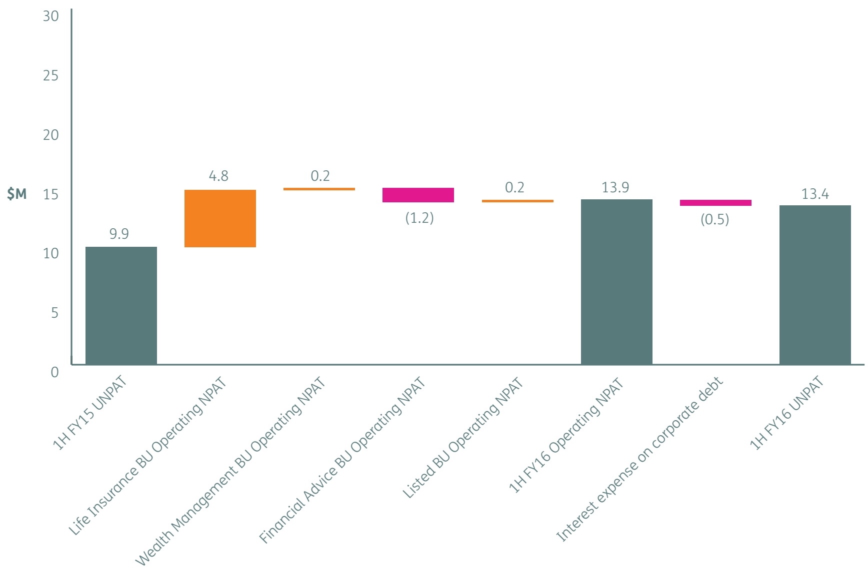
The following additional items impact the statutory net profit after tax, and comprise the reconciling items in the table on page 12:

- The amortisation of the intangibles is associated with the acquisition of wealth and life insurance businesses from Bupa, the ComCorp financial advice business and Matrix. These are separately reported to remove the non-cash effect of the write-off of these acquired intangibles. However, amortisation associated with capitalised software is reported as part of Operating NPAT;
- The policy liability discount rates effect is the result of the changes in long term discount rates used to determine the insurance policy liabilities. The life insurance policy liability (based on Australian International Financial Reporting Standards (AIFRS)) is discounted using market discount rates that typically vary at each reporting date and create volatility in the policy liabilities and consequently earnings. The change in discount rate impact reflects the change in interest rates between periods. ClearView separately reports this volatility which represents a timing difference in the release of profit and has no impact on underlying earnings. This movement in policy liability does, however, create a cash flow tax effect;
- ClearView made an investment in Your Insure, a start-up operation in Melbourne, in August 2014 to target selling direct life insurance to the lower socio demographic customer. ClearView agreed to provide funding to Your Insure which was structured as a Convertible Note. The investment in Your Insure has been written off (as noted earlier in the report), with a net of tax cost of $1.9 million being incurred. The costs associated with the aforementioned are considered unusual to the ordinary activities of the Group and are therefore not reflected as part of Operating NPAT; and
- Certain costs were recognised in the prior half year period in relation to the deal and integration costs associated with the merger of Matrix. The costs associated with the aforementioned are considered unusual to the ordinary activities of the Group and are therefore not reflected as part of Operating NPAT.

## Analysis of Result by Segment

The following waterfall reflects the result by operating segment below:

UNPAT Waterfall



## Life Insurance

Life Insurance BU Operating NPAT has increased by $4.8 million (+66%) compared with that for the year ended 31 December 2014. The experience items for 1H FY16, by half, are detailed in the table below:

| $M, 6 months to Dec 2015 | 1H FY15 | 2H FY15 | 1H FY16 |
|---|---|---|---|
| Actuarial planned BU Operating NPAT | **9.3** | **9.9** | **11.4** |
| Claims experience | 0.1 | (0.2) | 1.7 |
| Lapse experience[1] | (0.2) | 0.3 | (0.2) |
| Expense experience | (2.2) | (2.3) | (0.9) |
| Other | 0.3 | 0.3 | 0.1 |
| Actual BU operating NPAT | **7.3** | **8.0** | **12.1** |

This result reflects:

- Actuarial planned BU Operating NPAT reflects the expected profit margins on the in-force book based on actuarial assumptions ($11.4 million in 1H FY16; +23%). This is reflective of the strong growth in the business partially offset by the run off of the higher margin old direct book;
- Positive claims experience profit (after tax) of $1.7 million compared to an experience profit in 1H FY15 of $0.1 million (relative to planned margins). The positive claims experience in 1H FY16 was across all product lines;
- Given the current size of the life insurance portfolio and reinsurance arrangements in place (arrangements vary by product) some statistical claims volatility can be expected. Claims experience is anticipated to average out over time at the actuarial best estimate assumptions. As the in-force LifeSolutions premium grows, with higher reinsurance arrangements in place, the relative claims volatility is expected to reduce from period to period;
- Adverse lapse experience relative to the rates assumed in the life insurance policy liability (determined at 30 June 2015) with an experience loss of $0.2 million (after tax) in 1H FY16 (relative to planned margins) ($0.2 million loss in 1H FY15);
- The LifeSolutions business has since launch reflected positive lapse experience relative to assumptions and was broadly in line with assumptions in 1H FY16. The business written pre 2011 is now reflecting positive experience (+$0.3 million), given the assumption changes made in June 2014. This overall positive experience was partially offset by lapse losses incurred on new direct business written via certain channels. In particular, the distribution and product profile of this has been highly geared to the warm lead referral channel resulting in some continued adverse lapse experience (-$0.5 million). Therefore, there was an intentional slowdown in new business volume growth given the strategy to focus on the profitable segments.
- The growth in life insurance initial commission in the financial year is driven by the upfront variable commission cost related to the increased new business volumes. An override initial commission was paid from LifeSolutions to the CFA dealer group in 1H FY16 given that the life company is no longer absorbing part of the dealer group support costs. These acquisition costs are deferred and amortised within the policy liability, over the expected life of the policies, in accordance with the accounting standards;
- An increase in operating expenses. These are in addition to the upfront commissions and are driven by:
    - Variable stamp duty and medical policy acquisition costs related to increased new business volumes;
    - Increased distribution costs related to the option cost associated with ESP shares issued to advisers and the continued build out of the business development team;
    - The increase in the functional areas in the front end of the business to support the growth including underwriting and new business administration related costs;
    - The increased maintenance administration costs (including claims administration) as the in-force portfolios grow across business lines (there is effectively a 12 month delay given the policy renewal cycle);
    - The investment in a retention team and function in the Non-Advice business given the adverse new business lapse rates, as noted earlier in the report;
    - The allocation of dealer support costs to the CFA dealer group in 1H FY16, resulting in a reduction in operating costs, albeit with an increased initial commission paid on LifeSolutions to CFA;
    - The increased shared service costs across the group, including the upfront termination costs associated with the management restructure in 1H FY16.

1 Net lapse impact: net of lapses, partial reductions and CPI increase experience against assumptions.

- Increased reinsurance expense is aligned to the growth in the in-force portfolios given the upfront reinsurance support is provided in the first year of a policy;
- Expense overruns depress initial reported profits; these should eliminate as scale is achieved, thereby increasing underlying profit realised on the growing in-force portfolio. This resulted in a non-deferred expense experience loss of $0.9 million for the half year ($2.2 million in 1H FY15). This reflects that the expense overruns are starting to be absorbed given the increased scale of the business; and
- Increase in investment earnings given the reallocation of shareholder cash to the life insurance segment (given the growth in the business and its related capital requirements).

### Wealth Management

Wealth Management Operating NPAT has increased by $0.2 million (+18%) compared with that for the half year ended 31 December 2014. This result reflects the following:

- The profitability of Wealth Management is driven by the fees earned off FUM in ClearView product less expenses incurred. Overall FUM increased by 12%, with positive net flows of $101 million in 1H FY16, compared to $26 million in the prior comparable period. This predominantly reflects an improvement in the net outflows of the Master Trust product, the successful introduction of the WealthFoundations (a competitive mid-market wealth product) in October 2014 and the continued growth of WealthSolutions. Investment performance has been flat over the period. WealthSolutions continues to build to scale coupled with the launch of WealthFoundations in October 2014 that now has $152 million of FUM at 31 December 2015.
- The performance of investment markets plays a key part in "holding up" the Master Trust FUM, given that this is effectively a closed book with a portion of the FUM in the pension phase. Given that new business is written into WealthSolutions and WealthFoundations at lower margins than the existing in-force Master Trust products, fee income increased by 3% over the prior comparable period. This reflects the margin compression and related reduction in average fee rates across the in-force book. The margin compression and the run off of the Master Trust business is assumed in the Embedded Value calculations;
- WealthSolutions and WealthFoundations products have primarily been sold to date via the ClearView dealer groups. The distribution of these products is expected to be rolled out further given the increased Matrix adviser distribution footprint and the ability to expand the distribution to third party APLs. The focus on servicing the CFA and Matrix dealer groups to distribute the WealthSolutions and the newly launched WealthFoundations product more broadly commenced in 2H FY15;
- Increased cost base (+5%) is driven by the impact of the migration costs provisioned in 1H FY15 ($0.8 million after tax) that is predominantly offset by the incremental development, software amortisation and growth costs for the WealthFoundations product and related new platform that was only commenced being incurred post launch in October 2014 coupled with the increased investment in distribution in 2H FY15 to support the new contemporary products. The expense overruns (after tax) decreased to $1.4 million from $2.2 million in 1H FY15 given that WealthSolutions continues to build to scale and that there is increased average FUM in WealthFoundations in 1H FY16 to provide some support to the growth and development costs being incurred;
- The internal advice fee represents the inter segment advice fee (50bps) paid to Financial Advice on Master Trust FUM; the reduction is in line with average FUM. Given the growth in WealthSolutions FUM and the outsourced variable cost structure to the platform provider, platform fees increased in line with the average WealthSolutions FUM levels and average account balances;
- Funds management expenses increased given the expanded wealth product range (launch of WealthFoundations) and increased FUM levels between periods;
- A tax benefit of $0.2 million is included in the Wealth Management result that includes exempt fees in the Master Trust product range and a positive impact from a tax benefit arising from superannuation insurance premium deductions. These tax benefits are predominantly offset in the Listed segment (given some non deductibility of certain expenses across the group); and
- A reduction in investment earnings given the reallocation of shareholder cash between segments.

## Financial Advice

Financial Advice Operating NPAT has decreased by $1.2 million (-63%) compared with that for the year ended 31 December 2014. This result reflects the following:

- FUMA in the CFA and Matrix dealer group's is $8.1 billion (+9% on prior comparable period) and Premiums Under Advice of $203 million (+27% on prior comparable period). The number of financial advisers in CFA has increased to 136 as at 31 December 2015, representing an increase of 4% over the prior comparable period. In addition, Matrix has a total of 85 advisers as at 31 December 2015, raising the total for the Group to 221 which is consistent with the adviser numbers at 30 June 2015;
- Net financial planning fees are up 21% predominantly driven by the annualised impact of the Matrix merger (+$1 million), LifeSolutions volume based payments paid to the CFA dealer group in 1HFY16 (given that dealer group support costs are no longer allocated to the life segment) but partially offset by the run off of the 50bps internal advice fee earned by CFA off the Master Trust FUM (net impact of +$0.5 million). The recruitment of self-employed advisers into CFA has a limited impact on margin to date due to the adviser split arrangements;
- The Matrix dealer group had a $0.4 million contribution to Financial Advice Operating NPAT in 1H FY16 representing an increase of $0.2 million (merger was completed in October 2014); and
- Cost base increase of 67%, predominantly relates to a reallocation of dealer group support costs to CFA in 1H FY16 (which were previously partially absorbed by the life insurance segment) (+$1.4 million) and the annualised impact of the Matrix dealer group costs (+$0.6 million). Furthermore, the increased cost base was driven by the further investment in adviser support services to support a larger adviser base in the merged businesses (albeit there was a partial benefit from the transition of employed planners into the self-employed model) (+$0.4 million) and an increased allocation of shared services cost across the group (+$0.6 million).

## Listed Entity/Other

Listed Operating NPAT loss has decreased by $0.2 million compared with that for the half year ended 31 December 2014. This result reflects the following:

- The investment earnings on the cash and investments held in the listed and central services entities and in the shareholders fund of ClearView Life, less the costs associated with maintaining a listed entity. The Company manages part of its capital at the listed entity level in accordance with its Internal Capital Adequacy Assessment Process (ICAAP) policy;
- There has been increased investment earnings given the additional draw down under the Debt Facility but this has been offset by a reduction in term deposit rates on physical cash with some reallocation of physical cash between segments (as noted earlier in the report);
- A decrease in operating expenses given there has been no allocation of shared service costs to the listed segment in 1H FY16; and
- A tax charge of $0.2 million (1H FY15: $0.1 million) related to timing differences, partially offsetting tax benefits in other segments. The Group has an effective tax rate for the six month period that is broadly consistent with the prior comparable period.

## Statement of Financial Position

The Statement of Financial Position of the Group as set out on page 29 reflects the following key metrics as at 31 December 2015:

- Net assets of $345.5 million (June 2015: $336.8 million) representing a 3% increase over the prior comparable period;
- Net tangible assets of $292.8 million (June 2015: $280.8 million) ($331.6 million including ESP loans) representing a 4% increase over the prior comparable period;
- Net asset value per share (including ESP loans) of 64.1 cents per share (June 2015: 64.0 cents per share); and
- Net tangible asset value per share (including ESP loans) of 55.3 cents per share (June 2015: 54.4 cents per share).

Net assets were impacted during the year by:

- A reported profit of $7.6 million as outlined above;

- Net impacts of the FY15 final dividend and the fully underwritten dividend reinvestment plan (DRP) (+$0.6 million). A further 12.9 million shares were issued under the DRP. The net positive impact of the dividend declared relates to the repayment of ESP loans in accordance with the plan rules; and
- Movements in the ESP Reserve due to the treatment of the ESP expense in accordance with the accounting standards and ESP shares that were exercised (+$0.5 million).

The net asset value per share and net tangible asset value per share are reflected above on a fully diluted basis, as ClearView ESP shares have been issued to employees and contractor participants as at 31 December 2015 (in accordance with the ClearView ESP Rules). The ClearView ESP shares on issue have a corresponding non-recourse loan from ClearView to facilitate the purchase of ClearView ESP shares by the participants. The shares and loans are not reflected in the statutory accounts as they are accounted for as an "option" in accordance with Australian Accounting Standards. If the loan is not repaid, the relevant ClearView ESP shares are cancelled or reallocated in accordance with the ClearView ESP Rules.

## Embedded Value

Life Insurance and Wealth Management are long term businesses that involve long term contracts with customers and complex accounting treatments. Embedded Value represents the discounted value of the future net cash flows anticipated to arise from the in-force life policies and investment client balances as at the valuation date.

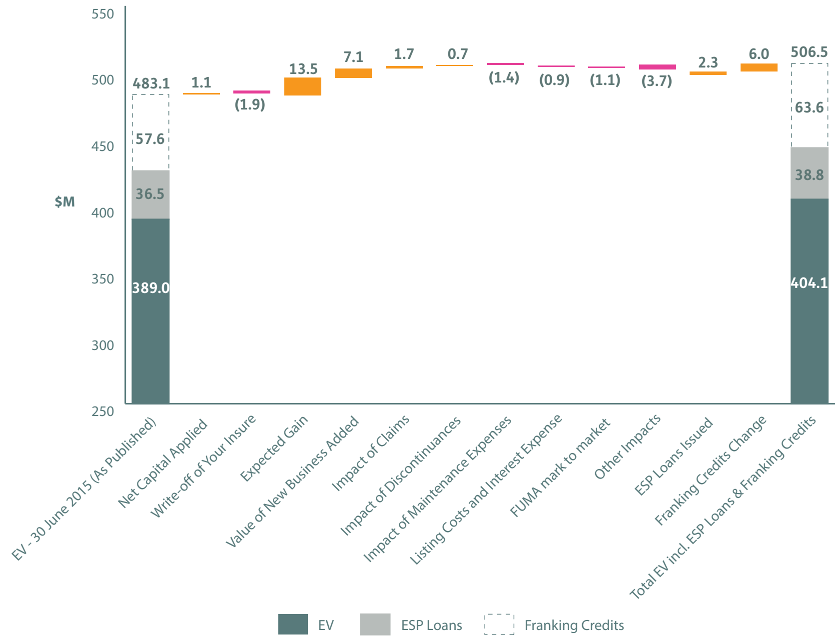
Embedded Value calculations at a range of risk discount margins are shown below:

| Risk margin over risk free | 3% dm $M | 4% dm $M | 5% dm $M |
|---|---|---|---|
| Life insurance | 291.4 | 274.4 | 259.2 |
| Wealth management | 44.3 | 42.4 | 40.6 |
| Financial Advice | 27.5 | 25.7 | 24.2 |
| Value of In Force (VIF) | **363.2** | **342.5** | **324.0** |
| Net worth | 61.6 | 61.6 | 61.6 |
| Total EV excluding ESP Loans | **424.8** | **404.1** | **385.6** |
| ESP Loans | 38.8 | 38.8 | 38.8 |
| Total EV including ESP Loans | **463.6** | **442.9** | **424.4** |
| Franking Credits: | | | |
| Life Insurance | 48.4 | 45.5 | 42.9 |
| Wealth Management | 11.4 | 10.9 | 10.5 |
| Financial Advice | 7.5 | 7.2 | 7.0 |
| Total EV including Franking Credits and ESP Loans | **530.9** | **506.5** | **484.8** |
| EV per share including ESP Loans (cents) | **77.3c** | **73.8c** | **70.8c** |
| EV per share including Franking Credits and ESP Loans (cents) | **88.5c** | **84.4c** | **80.8c** |

Dm = discount margin

Relative to the Embedded Value at 30 June 2015, the movement in the Embedded Value measured at a 4% discount rate margin is reflected below:

EV Movement Analysis:
@ 4% dm ($million)




## EV Movement

- Net Capital Applied (+$1.1 million): The increase in the Share Base Payments Reserve, including the impact of the Dividend Reinvestment Plan (DRP) and related repayment of ESP loans by participants given their ineligibility to participate in the DRP under the Plan Rules;
- Your Insure write-off (-$1.9 million): The Embedded Value was adversely impacted by the write off the investment in Your Insure;
- Expected Gain (+$13.5 million): The expected gain represents the unwind of the discount rate within the value of in-force and investment earnings on net worth;
- Value of New Business (VNB) (+$7.1 million): The value added by new business written over the period. The current value of new business is suppressed by the growth costs incurred. The acquisition cost overruns should decrease as the business grows, providing it with operating leverage. The Non-Advice business had a negative value of new business of $2.9 million that was a drag on the VNB. This was predominantly driven by a slow down in new business volumes given the adverse lapses in the lower socio-demographic channel. The negative value arises as a result of the acquisition expenses relative to the lower new business generated. The key growth driver, LifeSolutions, continued to reflect strong growth in the VNB;
- The claims experience (relative to actuarial assumptions) (+$1.7 million): The claims experience across product lines was favourable in 1H FY16. Given the current small size of the insurance portfolio, some claims volatility from period to period is to be expected;
- The impact of lapses on the life insurance book and FUMA discontinuance (+$0.7 million): The life insurance lapses impact (+$0.4 million) was driven by better than expected net lapse financial impact of LifeSolutions and the Old Book, partially offset by lapse rates for the new non-advice business being higher than expected. The balance of the impact was due to lower discontinuance rates for the Wealth Management and Financial Advice business (+$0.3 million);
- The adverse maintenance expense experience (-$1.4 million): This relates to the maintenance expense overruns versus the long term unit costs assumed in the EV. Emerging life insurers and wealth managers invest and incur overhead costs ahead of “getting to scale”:

The expense rates assumed in the EV are based on longer term unit costs, as opposed to current "expense overrun" levels. As business gets to scale, these costs are progressively supported by business volumes that creates operating leverage. Expense overruns depress EV growth initially; these are eliminated as scale is achieved, thereby increasing underlying profit margins on the growing in-force portfolio and removing the drag on EV growth. The Financial Advice business had a positive maintenance expense variance (+$0.4 million) that reduced the overruns in life insurance (-$0.9 million) and Wealth Management (-$0.9 million). The acquisition cost overruns are reflected within, and reduce, the value of new business added;

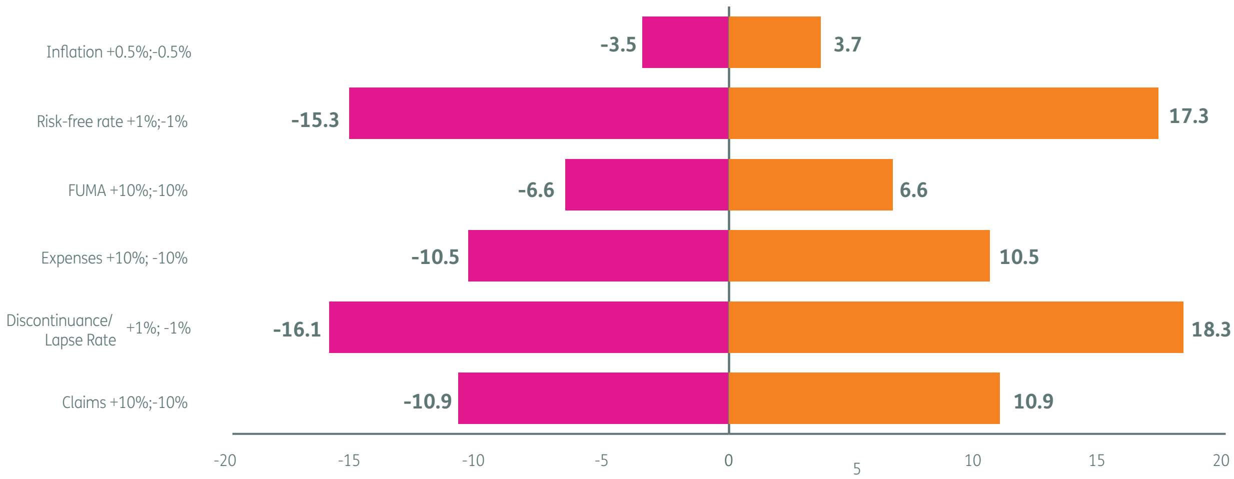
- Expenses were impacted by the Group's listed overhead costs and the (after tax) interest cost on corporate debt not allowed for in the Embedded Value (-$0.9 million);
- FUMA Mark to Market (-$1.1 million): The net investment performance on the funds under management and advice resulted in lower fee income relative to expectations over the period and a lower present value of future fees at the end of the period; and
- Basis Change and Assumption Changes (-$3.7 million): This was predominantly driven by the employed planner transition to the self employed model. The transition basis is structured to be broadly overall economic value (appraisal value) neutral to ClearView. However it results in a reduction in caculated EV and a gain in the (undisclosed) future new business value. This also includes the net effect of capital reallocations by segment, model enhancements, timing effects, actuarial assumption changes and capital base changes.

While the Embedded Value measures are determined in the context of the Group's business as a going concern, they do not include any additional value in respect of future new business that may be written after the valuation date.

The Embedded Value measure uses assumptions related to future experience.

A sensitivity analysis on the key assumptions in the Embedded Value is outlined below:

EV Sensitivity Analysis: Total@ 4% dm ($million)



## Shares issued under the ESP

As at the date of this report, ClearView has a total of 62.4 million ESP shares on issue of which 32.9 million have been issued to select financial advisers.

In accordance with the provisions of the ESP, during the half year 4.3 million shares were granted to senior management and contractor participants (financial advisers) with the grant dates set out below. Allowing for the exercise and reallocation of forfeited or vested ESP, the net increase in ESP shares issued was 4.0 million.

| Series | Participant | Grant date | No. of shares issued | Reallocated | Total |
|---|---|---|---|---|---|
| Opening balance (1 July 2015) | | | | | **58,371,348** |
| Series 49 | Contractor participants | 30/07/2015 | 2,709,452 | 300,000 | 3,009,452 |
| Series 50 | Senior management | 30/07/2015 | 77,320 | - | 77,320 |
| Series 51 | Senior management | 23/12/2015 | 1,204,063 | - | 1,204,063 |
| Reallocated | | | - | (300,000) | (300,000) |
| Closing balance as at the date of this report | | | **3,990,835** | **-** | **62,362,183** |

## Dividends

The Directors have not declared an interim dividend (1H FY15: Nil). The ability to pay an interim dividend has been to date limited by the availability of franking credits and the effect on tax paid of the changes in long term discount rates used to determine the insurance policy liabilities between the half year period and year end. As a sufficient franking credit balance continues to be progressively established, the payment of interim dividends will be considered.

The Board seeks to pay dividends at sustainable levels and has a target payout ratio between 40% and 60% of UNPAT. Furthermore, it is the intention to maximise the use of its franking account by paying fully franked dividends.

ClearView's ability to pay a franked dividend depends upon factors including its profitability, the availability of franking credits and its funding requirements which in turn may be affected by trading and general economic conditions, business growth and regulation. Accordingly, no assurance can be given as to the timing, extent and payment of dividends.

A final fully franked dividend for FY15 of $12.3 million was declared. This equated to 2.1 cents per share and represented approximately 60% of the FY15 UNPAT and is in line with the Company's dividend policy (+5% increase in the dividend per share over the prior year).

The FY15 final dividend was fully underwritten in accordance with the DRP that:

- Provides shareholders the opportunity to reinvest into the Group's fast growing life insurance business, while at the same time retaining capital within the Group;
- Given the illiquidity of the shares, it was not considered appropriate to minimise the dilutive impact of the DRP through the on market purchase of the number of shares required to satisfy the DRP participation; and
- The ongoing need for capital funding for the growth of the business.

## Capital Management

### Debt Funding Facility

ClearView entered into a three year, $50 million facility (Debt Funding Facility) in December 2014. The Board has determined that entering into the Debt Funding Facility is both the most cost effective and efficient way to support the current funding needs of ClearView over the short to medium term.

While ClearView remains a high growth company (relative to the in-force portfolio) it will likely require net capital funding given that the Debt Funding Facility will need to be replaced with one or more longer term capital solutions as the need for, and quantum of, longer term capital funding emerges and the final form of the life insurance reforms are implemented and assessed (given the potential reduced capital strain).

As at 31 December 2015, the Company has drawn down $45.5 million of the Debt Funding Facility. As such the net capital position of the Group after amounts drawn down under the Debt Funding Facility is $30.7 million at 31 December 2015. Refer to Note 11 for further details of the Debt Funding Facility.

### Capital Position

An analysis of reconciliation of the net assets in the Statement of Financial Position to the Group capital position after amounts drawn down under the Debt Funding Facility as at 31 December 2015 is outlined in the table below:

### Group Capital Position as at 31 December 2015

| | Life | Wealth | Other | APRA Regulated Entities | Wealth | Financial Advice | ASIC Regulated Entities | All Regulated Entities | NOHC/ Other | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Net Assets | 270.4 | 15.5 | 6.3 | 292.2 | 7.8 | 16.9 | 24.7 | 317.0 | 28.5 | 345.5 |
| Goodwill & Intangibles | (6.3) | (4.9) | 0.0 | (11.1) | 0.0 | (7.5) | (7.5) | (18.6) | (34.0) | (52.6) |
| Net Tangible Assets | **264.1** | **10.7** | **6.3** | **281.1** | **7.8** | **9.4** | **17.2** | **298.3** | **(5.5)** | **292.9** |
| Capital Base Adjustment: | | | | | | | | | | |
| Deferred Acquisition Costs (DAC) | (207.4) | (0.2) | 0.0 | (207.6) | 0.0 | 0.0 | 0.0 | (207.6) | 0.0 | (207.6) |
| Other Adjustments to Capital Base | (0.9) | (0.1) | 0.0 | (0.9) | (0.1) | (0.0) | (0.1) | (1.0) | (0.7) | (1.7) |
| Regulatory Capital Base | **55.8** | **10.4** | **6.3** | **72.6** | **7.8** | **9.4** | **17.1** | **89.7** | **(6.1)** | **83.6** |
| Prescribed Capital Amount | (6.4) | (3.5) | (2.6) | (12.5) | (5.0) | (1.2) | (6.2) | (18.7) | 0.0 | (18.7) |
| Available Enterprise Capital | **49.5** | **7.0** | **3.7** | **60.1** | **2.8** | **8.2** | **10.9** | **71.0** | **(6.1)** | **64.9** |
| Internal Benchmarks | | | | | | | | | | |
| Working Capital Reserve | (16.8) | (1.1) | (2.6) | (20.5) | 0.0 | 0.0 | 0.0 | (20.5) | (21.4) | (41.9) |
| Risk Capital | (28.4) | (4.0) | (0.0) | (32.4) | (2.2) | (5.6) | (7.9) | (40.3) | 2.5 | (37.8) |
| Excess/ Deficit over Internal Benchmarks | **4.3** | **1.9** | **1.1** | **7.3** | **0.5** | **2.5** | **3.0** | **10.3** | **(25.1)** | **(14.8)** |
| Debt Funding Facility | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 45.5 | 45.5 |
| Net Position after Debt Funding Facility | **4.3** | **1.9** | **1.1** | **7.3** | **0.5** | **2.5** | **3.0** | **10.3** | **20.4** | **30.7** |

Under the APRA capital standards, adjustments are made to the Capital Base for various asset amounts which are deducted, for example intangibles, goodwill and deferred tax assets (net of deferred tax liabilities). ClearView's capital is currently rated Common Equity Tier1 capital in accordance with the APRA capital standards.

# Directors' Report

Continued

The regulated entities have $10.3 million of net assets in excess of their internal benchmarks as at 31 December 2015. Internal benchmarks exceed regulatory capital requirements and include capital held for the protection of ClearView's regulatory capital position in respect of risk outcomes where the regulatory capital cannot be readily accessed and to protect the various regulated entities' regulatory licences.

Furthermore, a working capital reserve is held to support the capital needs of the business beyond the risk reserving basis. This includes the net capital anticipated to be needed to support the medium term new business plans (in accordance with the Internal Capital Adequacy Assessment Process). Internal benchmarks include a working capital reserve in the regulated entities of $20.5 million as at 31 December 2015 to fund anticipated new business growth over the medium term.

Internal benchmarks in the non regulated entities include a further working capital reserve of $21.4 million as at 31 December 2015, therefore totalling $41.9 million that is set aside across the Group to fund anticipated new business growth over the medium term.  While ClearView remains a high growth company (relative to the in-force portfolio) it will likely remain a negative cash flow business and require net funding. This is reserved for under the ICAAP and is reviewed over a three year forward period on a continuous basis.

The net position of the Group after amounts drawn down under the Debt Funding Facility as at 31 December 2015 is $30.7 million and represents a decrease of $2.0 million since 30 June 2015. This decrease since 30 June 2015 reflects the following key items:

- The Underlying NPAT for the half year period (+$13.4 million);
- The net capital absorbed by the growth of the business over the period (-$20.4 million);
- The decrease in the working capital reserve (+$6.2 million) reflecting capital set aside to fund the anticipated new business growth over the medium term;
- Increase in risk capital reserved due to increasing new business volumes offset by capital base movements in the half year period (-$0.1 million);
- Net impact of the underwritten DRP and share based payments expense on the Share Based Payments Reserve (+$1.1 million);
- The write off of the investment Your Insure (-$1.9 million); and
- The net impacts of the tax effect on the change in policy liability discount rate (-$0.3 million).

## Share Buyback

As has previously been stated, the Board of ClearView considers that buying back shares in circumstances where the share price is below the Company's view of intrinsic value is in the best interests of ClearView shareholders.

The Board has determined to extend, for an additional 12 months, its share buyback that has been in place since 19 December 2014. The buyback arrangements currently in place will continue to apply. Since 30 June 2015, 83,572 shares have been bought back under the scheme.

## Changes in state of affairs

Other than discussed above, there were no other significant changes in the state of affairs of the Group during the half year ended 31 December 2015.

## Auditor's independence declaration

The auditor's independence declaration is included on page 27.

## Rounding off of amounts

ClearView is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the half year financial report are rounded off to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors made pursuant to s.303 (5) of the Corporations Act 2001.

On behalf of the Directors

Dr Gary Weiss

Chairman

Sydney, 24 February 2016

# Auditor’s Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
GPO Box 78
Melbourne 3000
Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

The Board of Directors
ClearView Wealth Limited
Level 15, 20 Bond Street
Sydney 2000 NSW

24 February 2016

Dear Board Members

**ClearView Wealth Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of ClearView Wealth Limited.

As lead audit partner for the review of the financial statements of ClearView Wealth Limited for the financial half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

# Condensed consolidated statement of profit or loss and other comprehensive income

## For the half year ended 31 December 2015

| | Note | Consolidated | |
|---|---|---|---|
| | | 6 months to 31 December 2015 $'000 | 6 months to 31 December 2014 $'000 |
| Revenue from continued operations | | | |
| Premium revenue from insurance contracts | | 64,932 | 49,640 |
| Outward reinsurance expense | | (13,697) | (8,116) |
| Net life insurance premium revenue | | **51,235** | **41,524** |
| Fee and other revenue | | 54,989 | 41,028 |
| Investment income | | 46,269 | 44,408 |
| Operating revenue before net fair value gains on financial assets | | **152,493** | **126,960** |
| Net fair value (losses)/gains on financial assets | | (45,087) | 48,539 |
| Net operating revenue | | **107,406** | **175,499** |
| Claims expense | | (14,615) | (14,722) |
| Reinsurance recoveries revenue | | 7,159 | 6,211 |
| Commission and other variable expenses | | (52,825) | (37,840) |
| Operating expenses | 4 | (44,131) | (39,700) |
| Depreciation and amortisation expense | 4 | (6,744) | (6,293) |
| Impairment of convertible note | | (2,711) | - |
| Change in life insurance policy liabilities | 10 | 20,597 | 23,275 |
| Change in reinsurers' share of life insurance liabilities | 10 | (3,011) | (3,254) |
| Change in life investment policy liabilities | 10 | (8,701) | (71,862) |
| Movement in liability of non-controlling interest in controlled unit trusts | | 4,927 | (19,043) |
| Profit before income tax expense | | **7,351** | **12,271** |
| Income tax (benefit)/expense | | (192) | 4,533 |
| Total comprehensive income for the period from continuing operations | | **7,543** | **7,738** |
| Attributable to: | | | |
| Equity holders of the parent | | 7,543 | 7,738 |
| Earnings per share | | | |
| Basic (cents per share) | | 1.43 | 1.52 |
| Diluted (cents per share) | | 1.38 | 1.47 |
| Underlying earnings per share | | | |
| Basic (cents per share) | | 2.52 | 1.94 |
| Diluted (cents per share) | | 2.44 | 1.89 |

To be read in conjunction with the accompanying notes.

# Condensed consolidated statement of financial position

## For the half year ended 31 December 2015

| | | Consolidated | |
|---|---|---|---|
| | Note | 31 December 2015 $'000 | 30 June 2015 $'000 |
| **Assets** | | | |
| Cash and cash equivalents | | 176,563 | 200,769 |
| Investments | 9 | 1,500,853 | 1,450,251 |
| Receivables | | 15,839 | 15,516 |
| Fixed interest deposits | | 110,815 | 107,035 |
| Reinsurers' share of life insurance policy liabilities | | (4,416) | (2,233) |
| Current tax asset | | 3,403 | - |
| Deferred tax asset | | 10,503 | 11,029 |
| Property, plant and equipment | | 1,218 | 1,156 |
| Convertible note | | - | 1,711 |
| Goodwill | 7 | 19,952 | 19,952 |
| Intangible assets | 8 | 32,640 | 36,021 |
| Total assets | | **1,867,370** | **1,841,207** |
| **Liabilities** | | | |
| Payables | | 22,502 | 24,774 |
| Current tax liabilities | | - | 4,548 |
| Provisions | | 5,115 | 5,375 |
| Life insurance policy liabilities | 10 | (177,029) | (156,641) |
| Life investment policy liabilities | 10 | 1,138,455 | 1,160,627 |
| Borrowings | 11 | 45,500 | 45,500 |
| Liability to non-controlling interest in controlled unit trusts | | 486,344 | 418,920 |
| Deferred tax liabilities | | 1,009 | 1,271 |
| Total liabilities | | **1,521,896** | **1,504,374** |
| Net assets | | **345,474** | **336,833** |
| **Equity** | | | |
| Issued capital | 6 | 368,161 | 355,970 |
| Retained losses | | (28,417) | (23,659) |
| Executive Share Plan Reserve | | 7,815 | 6,607 |
| General Reserve | | (2,085) | (2,085) |
| Equity attributable to equity holders of the parent | | 345,474 | 336,833 |
| Total equity | | **345,474** | **336,833** |

To be read in conjunction with the accompanying notes.

# Condensed consolidated statement of changes in equity

## For the half year ended 31 December 2015

| | Share Capital $'000 | Executive Share Plan Reserve $'000 | General Reserve $'000 | Retained Losses $'000 | Attributable to Owners of the Parent $'000 |
|---|---|---|---|---|---|
| Balance at 30 June 2015 | **355,970** | **6,607** | **(2,085)** | **(23,659)** | **336,833** |
| Profit for the period | - | - | - | 7,543 | 7,543 |
| Total comprehensive income for the year | **-** | **-** | **-** | **7,543** | **7,543** |
| Recognition of share based payments | - | 556 | - | - | 556 |
| Dividend paid | - | - | - | (12,301) | (12,301) |
| Dividend Reinvestment Plan (net of costs) | 12,268 | - | - | - | 12,268 |
| Share buyback | (77) | - | - | - | (77) |
| ESP loans settled through dividend | - | 652 | - | - | 652 |
| Balance at 31 December 2015 | **368,161** | **7,815** | **(2,085)** | **(28,417)** | **345,474** |

| | | | | | |
|---|---|---|---|---|---|
| Balance at 30 June 2014 | **330,172** | **5,315** | **-** | **(25,254)** | **310,233** |
| Profit for the period | - | - | - | 7,738 | 7,738 |
| Total comprehensive income for the year | **-** | **-** | **-** | **7,738** | **7,738** |
| Recognition of share based payments | - | 663 | - | - | 663 |
| Dividend paid | - | - | - | (10,980) | (10,980) |
| Shares issued during the year | 14,838 | - | - | - | 14,838 |
| Shares issued during the year (ESP vested) | 52 | (155) | - | - | (103) |
| Dividend Reinvestment Plan (net of costs) | 10,907 | - | - | - | 10,907 |
| Recognised on Matrix acquisition | - | - | (2,085) | - | (2,085) |
| ESP loans settled through dividend | - | 550 | - | - | 550 |
| Balance at 31 December 2014 | **355,969** | **6,373** | **(2,085)** | **(28,496)** | **331,761** |

To be read in conjunction with the accompanying notes.

# Condensed consolidated statement of cash flows

## For the half year ended 31 December 2015

| | Consolidated | |
|---|---|---|
| | 6 months to 31 December 2015 $'000 | 6 months to 31 December 2014 $'000 |
| **Cash flows from operating activities** | | |
| Receipts from client and debtors | 198,016 | 182,537 |
| Payments to suppliers and other creditors | (141,832) | (96,121) |
| Withdrawals paid to life investment clients | (88,903) | (141,152) |
| Dividends and trust distributions received | 8,536 | 6,833 |
| Interest received | 15,969 | 16,512 |
| Interest paid | (1,024) | - |
| Income taxes paid | (7,422) | (5,976) |
| Net cash (utilised)/generated by operating activities | **(16,660)** | **(37,367)** |
| **Cash flows from investing activities** | | |
| Payments for investment securities | (887,653) | (872,582) |
| Proceeds from sales of investment securities | 811,224 | 829,775 |
| Net cash on acquisition of subsidiary | - | (4,970) |
| Acquisition of property, plant and equipment | (434) | (346) |
| Acquisition of capitalised software | (2,991) | (2,940) |
| Fixed interest deposits (invested)/redeemed | (2,209) | 20,550 |
| Loans (granted)/redeemed | 608 | (3,776) |
| Convertible note drawdown | (612) | (816) |
| Net cash generated/(utilised) by investing activities | **(82,067)** | **(35,105)** |
| **Cash flows from financing activities** | | |
| Net movement in liability of non-controlling interest in unit trusts | 73,979 | 30,561 |
| Proceeds from share issues (net of expenses) | - | 242 |
| Proceeds from loan borrowings | - | 20,500 |
| Share buy back (net of costs) | (77) | - |
| Repayment of ESP loans | 652 | 550 |
| Settlements in respect to ESP shares reallocation | - | (83) |
| Dividend Reinvestment Plan costs | (33) | (73) |
| Net cash (utilised)/generated in financing activities | **74,521** | **51,697** |
| Net increase/(decrease) in cash and cash equivalents | (24,206) | (20,775) |
| Cash and cash equivalents at the beginning of the financial year | 200,769 | 183,299 |
| Cash and cash equivalents at the end of the financial period | **176,563** | **162,524** |

To be read in conjunction with the accompanying notes.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

## 1. Significant accounting policies

### General information

ClearView Wealth Limited (the Company or the Group) is a limited company incorporated in Australia. The address of its registered office is Level 15, 20 Bond Street, Sydney, NSW 2000. The principal activities of the Company and its subsidiaries (the Group) are described in Note 3.

### Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

### Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's 2015 Annual Financial Report for the financial year ended 30 June 2015. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half year.

New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the Group include:

| | |
|---|---|
| AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality | AASB 1031 was an interim standard that cross-referenced other Standards and the Framework (issued December 2013) that contained guidance on materiality.<br>This amendment removes Australian guidance on materiality from other AASB's to reflect the withdrawal of AASB 1031 Materiality. Guidance on materiality is now located in AASB 101 Presentation of Financial Statements going forward.<br>The adoption of this amendment does not have a material impact on the Group or its disclosures. |

### Use of estimates, assumptions and judgments

The preparation of these Condensed Consolidated Financial Statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting estimates and judgements, which include complex or subjective decisions or assessments, are covered in Note 4 of the 2015 Annual Financial Statements. Such estimates and judgements are reviewed on an ongoing basis.

## 2. Events subsequent to reporting date

The Directors are not aware of any matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly, or may significantly; affect the operations of the Group, the results of those operations or the state of the affairs of the Group in future financial years.

## 3. Segment information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The information reported to the Group's Board of Directors, being the chief operating decision maker, for the purpose of resource allocation and assessment of performance is focussed on the products and services of each reporting segment.

The principal activities and the Group's reportable segments under AASB 8 are as follows:

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

- Life Insurance;
- Wealth Management;
- Financial Advice; and
- Listed Entity/Other.

### (a) Life Insurance ("protection" products)

ClearView provides life insurance protection products through its wholly owned subsidiary ClearView Life. The products provided by ClearView include:

- A comprehensive range of life protection products distributed by both ClearView Financial Advice (CFA) and Matrix financial advisers and third party, external advisers (IFAs). The product suite, LifeSolutions, was launched in December 2011 and is a high quality advice based product suite, providing top quartile benefits and terms at market competitive prices. LifeSolutions includes term life, permanent disability, trauma and critical illness benefits, parent cover, child cover, accident covers, income protection and business expense covers. Policies can be issued directly or via the ClearView Retirement Plan as superannuation; and
- A range of Non-Advice life protection products sold through direct marketing, telemarketing, call centre referrals, or online. Products include term life, accidental death, injury covers, trauma and critical illness and funeral insurance.

### (b) Wealth Management ("investment" products)

ClearView provides wealth management products via four primary avenues:

- Master Trust - Life investment contracts issued by ClearView Life. Products include ordinary savings, superannuation and allocated pension products, with the latter two provided via the ClearView Retirement Plan. These operate under a bundled fee structure;
- WealthSolutions - A superannuation and retirement income wrap (issued via the ClearView Retirement Plan) and an Investor Directed Portfolio Service (IDPS) Wrap. This is offered via the WealthSolutions platform which was launched in December 2011. WealthSolutions includes a menu of approximately 250 investment funds, ASX listed shares, term deposits and seven ClearView managed funds. It also provides a number of model portfolios managed by ClearView for superannuation investors and an SMA platform;
- WealthFoundations - Life investment contracts issued by ClearView Life. Products include superannuation and allocated pension products, issued via the ClearView Retirement Plan. This is offered via the WealthFoundations platform which was launched in October 2014. WealthFoundations includes a menu of 16 investment options with transparent investment in underlying funds; and
- Managed Investment Schemes (MIS) - Products are issued via ClearView Financial Management Limited (CFML) as the ASIC licensed Responsible Entity and include MIS products available on ClearView's WealthSolutions platform.

### (c) Financial Advice

ClearView provides financial advice services through its wholly owned subsidiaries CFA and MPS. CFA has historically employed a number of salaried financial advisers, and MPS and CFA provide dealer group services to a number of self employed financial advisers.

### (d) Listed Entity/Other

This represents the investment earnings on the cash and investments held in the listed and central services entities and in the shareholders fund of ClearView Life, less the costs associated with maintaining a listed entity and interest expense on corporate debt. The Group manages capital at the listed entity level in accordance with its ICAAP policy.

Asset segment information has not been disclosed because the allocation of assets is not used for evaluating segment performance and deciding the allocation of resources to segments.

Asset segment information is critical to the performance of each company and their respective regulatory obligations and is managed at a company level.

Information regarding segments is provided below. The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 1.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

| | External Revenue | | Inter-segment | | Total | |
|---|---|---|---|---|---|---|
| | Half year ended | | Half year ended | | Half year ended | |
| | 31 December 2015 $'000 | 31 December 2014 $'000 | 31 December 2015 $'000 | 31 December 2014 $'000 | 31 December 2015 $'000 | 31 December 2014 $'000 |
| Segment revenue | | | | | | |
| Life Insurance | 52,679 | 42,978 | - | - | 52,679 | 42,978 |
| Wealth Management | 59,832 | 57,283 | 2,052 | 2,843 | 61,884 | 60,126 |
| Financial Advice | 39,340 | 26,004 | 10,351 | 9,425 | 49,691 | 35,429 |
| Listed entity/Other | 642 | 695 | - | - | 642 | 695 |
| Consolidated segment revenue | **152,493** | **126,960** | **12,403** | **12,268** | **164,896** | **139,228** |

Segment profit or loss represents the profit or loss earned by each segment including the allocation of directly attributable costs of each segment and an allocation of central services costs according to an expense allocation model which allocates costs across each segment. The allocation excludes the allocation of investment revenue. This is the measure reported to the Board for the purposes of resource allocation and assessment of segment performance.

| 2015 | Life Insurance | Wealth Management | Financial Advice | Listed Entity/Other | Total |
|---|---|---|---|---|---|
| Total operating earnings after tax | **12,146** | **1,270** | **695** | **(247)** | **13,864** |
| Interest expense on corporate debt (after tax) | - | - | - | (512) | (512) |
| Underlying net profit/(loss) after tax | **12,146** | **1,270** | **695** | **(759)** | **13,352** |
| Amortisation of acquired intangibles[1] | (1,416) | (2,628) | (524) | - | (4,568) |
| AIFRS policy liability discount rate effect[2] | 1,006 | - | - | - | 1,006 |
| Matrix deal and integration costs[3] | - | - | - | (30) | (30) |
| Your Insure impairment[4] | - | - | - | (1,923) | (1,923) |
| Income tax effect | (302) | - | - | 8 | (294) |
| Reported profit/(loss) | **11,434** | **(1,358)** | **171** | **(2,704)** | **7,543** |
| **2014** | | | | | |
| Underlying net profit/(loss) after tax | **7,343** | **1,115** | **1,909** | **(465)** | **9,902** |
| Amortisation of acquired intangibles[1] | (1,416) | (2,628) | (412) | - | (4,456) |
| AIFRS policy liability discount rate effect[2] | 5,196 | - | - | - | 5,196 |
| Matrix deal and integration costs[3] | - | - | (452) | (1,365) | (1,817) |
| Income tax effect | (1,559) | - | 136 | 336 | (1,087) |
| Reported profit/(loss) | **9,564** | **(1,513)** | **1,180** | **(1,493)** | **7,738** |

1 The amortisation of the intangibles is associated with the acquisition of wealth and life insurance businesses from Bupa, the ComCorp financial advice business and Matrix. These are separately reported to remove the non-cash effect of the write-off of these acquired intangibles. However, amortisation associated with capitalised software is reported as part of Operating NPAT;

2 The policy liability discount rates effect is the result of the changes in long term discount rates used to determine the insurance policy liabilities. The life insurance policy liability (based on AIFRS) is discounted using market discount rates that typically vary at each reporting date and create volatility in the policy liabilities and consequently earnings. ClearView separately reports this volatility which represents a timing difference in the release of profit and has no impact on underlying earnings. This movement in policy liability creates a cash flow tax effect.

3 Certain costs were recognised in the prior half year period in relation to the deal and integration costs associated with the merger of Matrix. The costs associated with the aforementioned are considered unusual to the ordinary activities of the Group and are therefore not reflected as part of Operating NPAT; and

4 ClearView made an investment in Your Insure, a start-up operation in Melbourne, in August 2014 to target selling direct life insurance to the lower socio demographic customer. ClearView agreed to provide funding to Your Insure which was structured as a Convertible Note. The investment in Your Insure has been written off (as noted earlier in the report), with a net of tax cost of $1.9 million being incurred. The costs associated with the aforementioned are considered unusual to the ordinary activities of the Group and are therefore not reflected as part of Operating NPAT.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

## 4. Operating Expenses

| | Consolidated | |
|---|---|---|
| | 6 months to 31 December 2015 $'000 | 6 months to 31 December 2014 $'000 |
| Administration expenses | | |
| Administration and other operational costs | 13,532 | 13,621 |
| Custody and investment management expenses | 3,687 | 3,456 |
| Total administration expenses | **17,219** | **17,077** |
| Employee costs and directors' fees | | |
| Employee expenses | 24,301 | 20,065 |
| Share based payments | 555 | 663 |
| Employee termination payments | 885 | 449 |
| Directors' fees | 494 | 540 |
| Total employee costs and directors' fees | **26,235** | **21,717** |
| Other expenses | | |
| Professional fees | 677 | 906 |
| Total other expenses | **677** | **906** |
| Total operating expenses | **44,131** | **39,700** |
| Depreciation and amortisation | | |
| Depreciation expenses | 372 | 307 |
| Software amortisation | 1,804 | 1,533 |
| Amortisation of acquired intangibles | 4,568 | 4,453 |
| Total depreciation and amortisation | **6,744** | **6,293** |

## 5. Dividends Paid

During the period, ClearView made the following dividend payments:

| | Consolidated | | | |
|---|---|---|---|---|
| | 6 months to 31 December 2015 | | 6 months to 31 December 2014 | |
| | Cents per share | $'000 | Cents per share | $'000 |
| Final dividend | 2.1 | 12,301 | 2.0 | 10,980 |
| Total | | **12,301** | | **10,980** |

No interim dividend has been declared.

A final fully franked dividend for FY15 of $12.30 million was declared. This equated to 2.1 cents per share and represented approximately 60% of the FY15 underlying net profit after tax and is in line with the Company's dividend policy. The Company has a Dividend Reinvestment Plan (DRP) which is fully underwritten and as such no cash dividend was paid during the half year, as can be seen in the Condensed Consolidated Statement of Cash Flows.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

## 6. Issuances and Repurchase of Equity

| | 6 months to 31 December 2015 No of shares | 6 months to 31 December 2015 $'000 | 12 months to 30 June 2015 No of shares | 12 months to 30 June 2015 $'000 |
|---|---|---|---|---|
| **Issued and fully paid ordinary shares** | | | | |
| Balance at the beginning of the period | 524,610,834 | 355,970 | 495,044,922 | 330,172 |
| Dividend Reinvestment Plan | 12,948,536 | 12,301 | 13,724,628 | 10,977 |
| Dividend Reinvestment Plan costs | - | (33) | - | (70) |
| Share buyback (inclusive of costs) | (83,572) | (77) | - | - |
| Performance based shares issued in relation to Matrix acquisition | - | - | 15,432,742 | 14,588 |
| Subscription of shares by O&B | - | - | 308,542 | 250 |
| Shares issued during the period (ESP vested) | - | - | 100,000 | 53 |
| Balance at the end of the period | **537,475,798** | **368,161** | **524,610,834** | **355,970** |
| **Executive share plan** | | | | |
| Executive share plan balance at the beginning of the period | 58,371,348 | - | 49,381,666 | - |
| Shares granted under executive share plan | 4,290,835 | - | 9,493,682 | - |
| Shares forfeited during the year | - | - | (104,000) | - |
| Shares reallocated during the year | (300,000) | - | (300,000) | - |
| Shares exercised during the year | - | - | (100,000) | - |
| Executive share plan balance at the end of the period | **62,362,183** | **-** | **58,371,348** | **-** |

In accordance with the provisions of the ESP, during the half year period 4.3 million shares were granted (including 0.3 million of reallocated shares) to senior management and contractor participants with the following grant dates:

| Series | Participant[1] | Grant Date | Reallocated | No of Shares Issued | Total |
|---|---|---|---|---|---|
| Opening Balance at 1 July 2015 | | | | | **58,371,348** |
| Series 49 | CP | 30-Jul-15 | 300,000 | 2,709,452 | 3,009,452 |
| Series 50 | SM | 30-Jul-15 | - | 77,320 | 77,320 |
| Series 51 | SM | 23-Dec-15 | - | 1,204,063 | 1,204,063 |
| Reallocations | | | (300,000) | - | (300,000) |
| Closing Balance at 31 December 2015 | | | **-** | **3,990,835** | **62,362,183** |

1 KMP = Key Management Personnel, SM = Senior management, CP = Contractor participants

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

Shares granted under the ESP carry rights to dividends and voting rights. For details of the ESP refer to the June 2015 Annual Report.

The above ESP balance reconciles to the outstanding shares granted under the ESP at the beginning and the end of each relevant period. In accordance with AASB 2 Share Based Payments, the shares issued under the employee share plan are treated as options and are accounted for as set out in Note 3 of the 30 June 2015 Annual Report.

## 7. Goodwill

| | Consolidated | |
|---|---|---|
| | 31 December 2015 $'000 | 30 June 2015 $'000 |
| Gross carrying amount | | |
| Balance at the beginning of the financial period | 19,952 | 4,858 |
| Additional amount recognised through acquisition of business | - | 15,094 |
| Balance at the end of the financial period | **19,952** | **19,952** |
| Net book value | | |
| At the beginning of the financial period | 19,952 | 4,858 |
| At the end of the financial period | **19,952** | **19,952** |

## 8. Intangible Assets

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Capitalised Software | CWT Software | Client Book | Matrix Website | Matrix Brand | Total |
| **6 months to 31 December 2015** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Gross carrying amount** | | | | | | |
| Balance at the beginning of the period | 18,102 | 1,500 | 63,317 | 20 | 200 | 83,139 |
| Acquired directly during the period | 2,991 | - | - | - | - | 2,991 |
| Balance at the end of the period | **21,093** | **1,500** | **63,317** | **20** | **200** | **86,130** |
| **Accumulated amortisation and impairment losses** | | | | | | |
| Balance at the beginning of the period | 8,147 | 1,500 | 37,461 | 10 | - | 47,118 |
| Amortisation expense in the current period | 1,803 | - | 4,562 | 7 | - | 6,372 |
| Balance at the end of the period | **9,950** | **1,500** | **42,023** | **17** | **-** | **53,490** |
| **Net book value** | | | | | | |
| Balance at the beginning of the period | 9,955 | - | 25,856 | 10 | 200 | 36,021 |
| At the end of the period | **11,143** | **-** | **21,294** | **3** | **200** | **32,640** |

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Capitalised Software | CWT Software | Client Book | Matrix Website | Matrix Brand | Total |
| **6 months to 30 June 2015** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Gross carrying amount** | | | | | | |
| Balance at the beginning of the period | 14,667 | 1,500 | 63,316 | 20 | 200 | 79,703 |
| Acquired directly during the period | 3,435 | - | 1 | - | - | 3,436 |
| Balance at the end of the period | **18,102** | **1,500** | **63,317** | **20** | **200** | **83,139** |
| **Accumulated amortisation and impairment losses** | | | | | | |
| Balance at the beginning of the period | 6,486 | 1,500 | 32,920 | 3 | - | 40,909 |
| Amortisation expense in the current period | 1,661 | - | 4,541 | 7 | - | 6,209 |
| Balance at the end of the period | **8,147** | **1,500** | **37,461** | **10** | **-** | **47,118** |
| **Net book value** | | | | | | |
| Balance at the beginning of the period | 8,181 | - | 30,396 | 17 | 200 | 38,794 |
| At the end of the period | **9,955** | **-** | **25,856** | **10** | **200** | **36,021** |

Included in the capitalised software (net book value of $11.1 million at 31 December 2015) is $5.0 million related to WealthFoundations and the new platform build (with a further $1.0 million having been capitalised during the period). Amortisation commenced from the launch of the WealthFoundations product.

The intangible assets are amortised over their expected useful lives. As required under accounting standards at each reporting date the Company assesses whether there is an indication of impairment.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

## 9. Investments

| | Consolidated | |
|---|---|---|
| | 31 December 2015 $'000 | 30 June 2015 $'000 |
| Equity securities | | |
| Held directly | 234,187 | 222,891 |
| Held indirectly via unit trust | 299,160 | 315,081 |
| | **533,347** | **537,972** |
| Debt securities/fixed interest securities | | |
| Held directly | 713,432 | 661,976 |
| Held indirectly via unit trust | 28,454 | 29,213 |
| | **741,886** | **691,189** |
| Property/infrastructure/emerging markets | | |
| Held directly | - | - |
| Held indirectly via unit trust | 225,620 | 221,090 |
| | **225,620** | **221,090** |
| Total investments | **1,500,853** | **1,450,251** |

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

## 10. Policy Liabilities

| | Consolidated | |
|---|---|---|
| | 6 months to 31 December 2015 $'000 | 6 months to 31 December 2014 $'000 |
| **Life Investment Policy Liabilities** | | |
| Opening gross life investment policy liabilities | **1,160,627** | **1,122,364** |
| Net increase/(decrease) in life investment policy liabilities reflected in the income statement | 8,701 | 71,862 |
| Decrease in life investment policy liabilities due to management fee reflected in the income statement | (11,873) | (12,053) |
| Life investment policy contributions recognised in policy liabilities | 72,062 | 99,046 |
| Life investment policy withdrawals recognised in policy liabilities | (91,062) | (141,152) |
| Closing gross life investment policy liabilities | **1,138,455** | **1,140,067** |
| **Life Insurance Policy Liabilities** | | |
| Opening gross life insurance policy liabilities | (156,641) | (127,278) |
| Movement in outstanding claims | 209 | 6,425 |
| Decrease in life insurance policy liabilities reflected in the income statement | (20,597) | (23,275) |
| Closing gross life insurance policy liabilities | (177,029) | (144,128) |
| Total gross policy liabilities | **961,426** | **995,939** |
| **Reinsurers' Share of Life Insurance Policy Liabilities** | | |
| Opening reinsurer's share of life insurance policy liabilities | 2,233 | 3,872 |
| Movement in outstanding reinsurance | (828) | (3,763) |
| Decrease/(increase) in reinsurance assets reflected in the income statement | 3,011 | 3,254 |
| Closing reinsurer's share of life insurance policy liabilities | 4,416 | 3,363 |
| Net policy liabilities at balance date | **965,842** | **999,302** |

## 11. Borrowings

On the 18 December 2014 the Company entered into a three year $50 million facility agreement with the Commonwealth Bank of Australia. As at the reporting date, the Company has drawn down $45.5 million on the facility, with $4.5 million of unused credit facilities available for immediate use.

Interest on the loan accrues at BBSY plus a margin of 0.7% per annum, and is payable monthly. Furthermore, a line fee of 0.4% per annum is payable on the facility on a quarterly basis.

The facility is secured by a number of cross guarantees, refer to Note 17 for details.

## 12. Key Management Personnel

Remuneration arrangements of key management personnel are disclosed in the June 2015 Annual Report issued in August 2015. The following changes have occurred during the half year:

- Sarah Cummings was appointed as General Manager, Development on 21 October 2015;
- Deborah Lowe was appointed as General Manager, People and Operations on 21 October 2015;
- Tony Thomas, General Manager, Operations and Technology ceased employment on 21 October 2015; and
- Chris Robson, General Counsel and Company Secretary ceased employment on 11 November 2015.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

## 13. Financial Instruments

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

| | Fair Value | | | | | |
|---|---|---|---|---|---|---|
| Financial Assets/ Financial Liabilities | 31 December 2015 $'000 | 30 June 2015 $'000 | Fair Value Hierarchy | Valuation techniques and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
| Equity securities | 234,187 | 222,891 | Level 1 | Quoted bid prices in an active market | n/a | n/a |
| Fixed interest securities | 713,432 | 661,977 | Level 2 | The fair value of Fixed Interest Securities are based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the investment | n/a | n/a |
| Unit Trusts | 553,234 | 565,383 | Level 1 | Quoted bid prices in an active market | n/a | n/a |
| Total | **1,500,853** | **1,450,251** | | | | |

There were no transfers between Level 1 and 2 in the financial period.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

## 14. Convertible note

| | Consolidated | |
|---|---|---|
| | 31 December 2015 $'000 | 31 June 2015 $'000 |
| Convertible note | - | 1,711 |
| Convertible note | **-** | **1,711** |

ClearView agreed to provide funding to Your Insure which was structured as a Convertible Note. Given the structural shift in the lower socio demographic market and impacts on profitability (adverse lapses), the Board decided to cease funding Your Insure in the 1H FY16. As a result of the above, the investment in Your Insure has been written off, with a net of tax cost of $1.9 million being incurred.

# Notes to the condensed consolidated financial statements

## For the half year ended 31 December 2015

Continued

## 15. Contingent Liabilities and Contingent Assets

The Group has an additional $0.9 million term deposit that backs a financial guarantee issued by National Australia Bank in favour of the landlord of the head office. The guarantee relates to additional floorspace the Group has leased at 20 Bond Street.

There are no other material changes to contingent liabilities and contingent assets that were disclosed in the 30 June 2015 Annual Report.

## 16. Capital Commitments

ClearView had committed to provide funding to Your Insure up to a maximum of $3.3 million on a draw down basis. At 30 June 2015 $1.6 million of this was available to be drawn down subject to the achievement of certain performance hurdles. Due to the decision to cease funding of Your Insure there are no further commitments to Your Insure as at the balance date.

There are no other material changes to capital commitments that were disclosed in the 30 June 2015 Annual Report.

## 17. Guarantees

The facility entered into with the Commonwealth Bank of Australia is guaranteed jointly and severally by:

| | |
|---|---|
| • ClearView Wealth Limited | ACN 106 248 248 |
| • ClearView Group Holdings Pty Limited | ACN 107 325 388 |
| • ClearView Administration Services Pty Limited | ACN 135 601 875 |
| • ClearView Financial Management Limited* | ACN 067 544 549 |
| • Matrix Planning Solutions Limited* | ACN 087 470 200 |
| • ClearView Financial Advice Pty Ltd* | ACN 133 593 012 |

*These entities provide a limited guarantee. The recovery granted from the guarantee is limited to the extent that it does not result in the entities breaching their Australian Financial Services Licence conditions.

The guarantees are supported by collateral (in the form of the shares) of the entities.

# Directors' Declaration

The Directors declare that:

a) In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

b) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity, for the half year ended 31 December 2015

Signed in accordance with a resolution of the Directors made pursuant to s.303 (5) of the *Corporations Act 2001*.

On behalf of the Directors

Dr Gary Weiss
Chairman
Sydney, 24 February 2016

# Independent Auditor's Review Report

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
GPO Box 78
Melbourne 3000
Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

## Independent Auditor's Review Report to the Members of ClearView Wealth Limited

We have reviewed the accompanying half-year financial report of ClearView Wealth Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 28 to 43.

*Directors' Responsibility for the Half-Year Financial Report*

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

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of ClearView Wealth Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

# Independent Auditor's Review Report

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ClearView Wealth Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

DELOITTE TOUCHE TOHMATSU

Peter Caldwell
Partner
Chartered Accountants
Melbourne, 24 February 2016

ClearView

ClearView Wealth Limited
ABN 83 106 248 248

**ASX Code: CVW**

GPO Box 4232
Sydney NSW 2001
**T** 132 979

**www.clearview.com.au**

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