

Appendix 4D (Rule 4.2A.3)

Financial statements for the half-year ended 31 December 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to half-year ended 31 December 2015)

	\$ '000	Up / Down	% Movement
Revenues from ordinary activities	13,328	up	21.8%
Net profit after tax	569	down	(66.5%)
Less net profit after tax attributable to The Foundation	5		
Net profit attributable to shareholders	564	down	(62.4%)
Add back employment restructure expense	250		
Add back further provision for remediation	1,045		
Add back unit pricing project costs	1,160		
Tax on adjustments	<i>(737)</i>		
Underlying net profit after tax	2,282	up	52.1%
Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2016 dividend per share (paid 23 September 2016)	180.0	180.0	30%
Interim 2017 dividend per share (to be paid 24 March 2017)	50.0	50.0	30%
Interim dividend dates			
Ex-dividend date		9 March 2017	
Record date		10 March 2017	
Payment date		24 March 2017	
The Company's Dividend Reinvestment (DRP) will not operate with respect to the interim dividend.			
	31 Dec 2016	31 Dec 2015	
		Restated	
Net tangible assets per security	\$10.06	\$10.84	
Net asset value per security	\$10.87	\$11.31	

This information should be read in conjunction with the 2016 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4D disclosure requirements can be found in the Directors' Report and the Interim Financial Report for the period ended 31 December 2016.

This report is based on the consolidated 2016 half-year financial statements of Australian Ethical Investment Limited which have been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the Interim Financial Report for the period ended 31 December 2016.

**Australian Ethical Investment Limited
and its Controlled Entities**

ABN 47 003 188 930

**Interim Financial Report
for the half-year ended 31 December 2016**

Australian Ethical Investment Limited and its Controlled Entities

ABN 47 003 188 930

Interim Financial Report for the half-year ended 31 December 2016

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

**Australian Ethical Investment Limited
Directors' Report
For the half-year ended 31 December 2016**

The Directors of Australian Ethical Investment Limited (the "Company") present their report together with the interim condensed consolidated financial statements for the six months ended 31 December 2016 and the review report thereon.

Directors

The following persons held office as Directors of the Company during or since the end of the financial period:

- Stephen Gibbs (Chairperson and Non-Executive Director) (appointed 25 July 2012)
- Mara Bun (Non-Executive Director) (appointed 4 February 2013)
- Tony Cole (Non-Executive Director) (appointed 4 February 2013)
- Kate Greenhill (Non-Executive Director) (appointed 22 February 2013)
- Philip Vernon (Managing Director and Chief Executive Officer) (Appointed 27 July 2010)

Operating and financial review

The consolidated net profit for the six months to 31 December 2016 is \$0.569m (2015 (restated): \$1.701m) apportioned as follows:

- profit attributable to shareholders \$0.564m (2015: \$1.501m)
- profit attributable to The Foundation \$0.005m (2015: \$0.200m)

The financial report contains additional information in Note 5 'The Foundation results', resulting from the consolidation for the first time of Australian Ethical Foundation Limited ('The Foundation').

Management Analysis – Financial Performance	Half Year Ending		
	31 December 2016 (\$'000)	31 December 2015 Restated* (\$'000)	% Increase/ (Decrease)
Net profit after tax (NPAT)	569	1,701	(67%)
Less net profit after tax attributable to The Foundation	5	200	
Net profit after tax attributable to shareholders	564	1,501	(62%)
Adjustments			
- add back employment restructure expenses	250	-	
- add back further provision for remediation	1,045	-	
- add back unit pricing project costs	1,160	-	
Tax on adjustments	(737)	-	
Underlying profit after tax (UPAT)	2,282	1,501	52%

*Restated, refer note 4 to the financial statements.

Management Analysis – Financial Performance	Half Year Ending		
	31 December 2016	31 December 2015	% Increase/ (Decrease)
Basic EPS on NPAT (cents per share)	52.55	159.35*	(67%)
Basic EPS on NPAT attributable to shareholders (cents per share)	52.07	140.56	(63%)
Basic EPS on UPAT (cents per share)	210.75	140.56	50%
Dividend (cents per share)	50	120	(58%)

*Restated, refer note 4 to the financial statements.

A review of operations for the Group is set out in the Shareholder Newsletter.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$	Franked/ unfranked	Date of payment
Declared and paid during the past 6 months:				
- Final 2016	180	2,008,537	Franked	23 September 2016
Declared after 31 December 2016:				
- Interim 2017	50	557,927	Franked	24 March 2017 ¹

¹ Planned payment date

Events subsequent to reporting date

Other than the dividend declared subsequent to period end, no other matter or circumstance has occurred subsequent to the period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

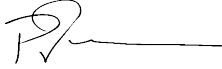
Recording of Amounts

The company is of a kind referred to in *ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the condensed consolidated interim financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor's Independence Declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to be 'P. Vernon', followed by a horizontal line extending to the right.

Phil Vernon
Managing Director and Chief Executive Officer
Sydney
27 February 2017



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

To: the directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'T. Gilerman'.

Tanya Gilerman
Partner

Sydney

27 February 2017



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

Report on the financial report

We have reviewed the accompanying half-year financial report of Australian Ethical Investment Limited, which comprises the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibility of the Directors for the interim financial report

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

Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Ethical Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'KPMG'.

KPMG

A handwritten signature in cursive script that reads 'T. Gilerman'.

Tanya Gilerman
Partner

Sydney

27 February 2017

Australian Ethical Investment Limited
Consolidated statement of financial position
As at 31 December 2016

	31 December 2016	30 June 2016
Notes	\$'000	Restated* \$'000
ASSETS		
Current assets		
Cash and cash equivalents	12,143	14,324
Trade and other receivables	1,472	495
Current tax assets	390	-
Other current assets	579	368
Total current assets	14,584	15,187
Non-current assets		
Term deposit	504	-
Property, plant and equipment	2,140	1,823
Investment property	1,421	-
Deferred tax assets	901	914
Total non-current assets	4,966	2,737
Total assets	19,550	17,924
LIABILITIES		
Current liabilities		
Trade and other payables	2,933	1,839
Current tax liabilities	-	605
Provisions	2,821	900
Employee benefits	875	1,169
Total current liabilities	6,629	4,513
Non-current liabilities		
Trade and other payables	602	69
Provisions	94	-
Employee benefits	96	99
Total non-current liabilities	792	168
Total liabilities	7,421	4,681
Net assets	12,129	13,243
EQUITY		
Issued capital	9,922	8,693
Reserves	1,026	1,929
Retained earnings	1,181	2,621
Total equity	12,129	13,243

* Refer to Note 4

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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

	Half-year ended	
Note	31 December 2016 \$'000	31 December 2015 Restated* \$'000
Revenue from continuing operations	13,328	10,941
Expenses		
Operating expenses		
External services	(1,129)	(999)
Employee benefits	(4,510)	(4,084)
Occupancy	(470)	(211)
Marketing and communication	(850)	(708)
Fund related	(1,988)	(1,547)
Depreciation and amortisation	(84)	(117)
Community grants	(100)	-
Other operating expense	(983)	(809)
Total operating expenses	(10,114)	(8,475)
Non-operating expenses		
Remediation expense	6 (2,205)	-
Loss on disposal of assets	(205)	-
Total non-operating expenses	(2,410)	-
Total expenses	(12,524)	(8,475)
Profit before tax	804	2,466
Income Tax expense	7 (235)	(765)
Net profit for the period	569	1,701
Total comprehensive income for the period #	569	1,701
	Half-year ended	
	31 December 2016 Cents	31 December 2015 Restated* Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Group		
Basic earnings per share	52.55	159.35
Diluted earnings per share	51.08	153.80

Comprehensive income includes the results of The Foundation (refer to Note 5)

* Refer to Note 4

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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

	Notes	Issued capital \$'000	Share-based payments reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2015 as previously reported		7,004	2,338	1,810	11,152
Impact of restatement	4	-	-	252	252
Balance at 1 July 2015 - restated		7,004	2,338	2,062	11,404
Net profit for the period		-	-	1,701	1,701
Total comprehensive income for the period		-	-	1,701	1,701
Transactions with owners in their capacity as owners:					
Shares issued due to rights vesting during the period		1,659	(1,659)	-	-
Dividends provided for or paid		-	-	(1,313)	(1,313)
Employee share scheme - Rights		-	267	-	267
Employee share plan - Deferred shares		-	314	-	314
		1,659	(1,078)	(1,313)	(732)
Balance at 31 December 2015		8,663	1,260	2,450	12,373
Restated balance at 1 July 2016		8,693	1,929	2,621	13,243
Net profit for the period		-	-	569	569
Total comprehensive income for the period		-	-	569	569
Transactions with owners in their capacity as owners:					
Shares issued due to rights vesting during the period	10	1,229	(1,229)	-	-
Dividends provided for or paid	11	-	-	(2,009)	(2,009)
Employee share plan - Deferred shares		-	326	-	326
		1,229	(903)	(2,009)	(1,683)
Balance at 31 December 2016		9,922	1,026	1,181	12,129

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

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

	Half-year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Operating activities		
Receipts from customers	12,153	11,079
Payments to suppliers and employees	(8,954)	(9,980)
Interest received	134	107
Community grants paid	(280)	(230)
Income taxes paid	(1,110)	(1,835)
Net cash inflow/(outflow) from operating activities	1,943	(859)
Investing activities		
Purchase of term deposit	(504)	-
Payments for property, plant and equipment	(1,586)	(11)
Net cash outflow from investing activities	(2,090)	(11)
Financing activities		
Dividends paid to the Company's shareholders	(2,034)	(1,313)
Net cash outflow from financing activities	(2,034)	(1,313)
Net decrease in cash and cash equivalents	(2,181)	(2,183)
Cash and cash equivalents at the beginning of the period	14,324	12,227
Cash and cash equivalents at end of period	12,143	10,044

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

1 Reporting entity

The interim financial report covers the consolidated entity of Australian Ethical Investment Limited and its wholly owned subsidiaries (together referred to as the Group and individually as Group entities). Australian Ethical Investment Limited is a listed public company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Company's controlled entities are:

- Australian Ethical Superannuation Pty Limited
- Australian Ethical Investment Limited Employee Share Plan Trust
- Australian Ethical Foundation Limited

Australian Ethical Foundation Limited ("The Foundation") was incorporated by Australian Ethical Investment Limited on 28 July 2015. Refer to Note 4 for prior period restatement.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these Consolidated interim financial statements are consistent with those in the 30 June 2016 financial report except for the new accounting policy in relation to investment property (see Note 8) and the consolidation of The Foundation (see Note 4). These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation of half-year report

The Consolidated interim financial statements for the half-year reporting period ended 31 December 2016 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The Group is a for-profit entity for the purpose of preparing the Consolidated interim financial statements.

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

The Consolidated interim financial statements have been prepared on an accruals basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The Consolidated financial statements were authorised for issue by the Company's Board of Directors on 27 February 2017.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

3 Critical accounting estimates and judgements

In preparing these consolidated interim financial statements, Management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2016.

4 Restatement impact on prior period balances

On 28 July 2015, the Australian Ethical Foundation was established. The purpose of the Foundation is to be the vehicle for the disbursement of profits that are subject to clause 15.1 (c)(ii) of the Parent entity's constitution which requires a portion of profits to be provided for charitable, benevolent or conservation purposes. The creation of the Foundation allows for flexibility when allocating money, to manage multi-year grants and for the creation of a corpus for long term funding of worthwhile causes and organisations.

All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available for distribution to AEI's shareholders or to settle liabilities of other Group entities.

Following a review of current industry practice, the Group determined that The Foundation should be consolidated and form part of the Group. As a result, prior periods have been restated as outlined below:

Consolidated Statement of Comprehensive Income

	Half-year ended		
	As previously reported	Adjustments	Restated Balance
	31 December 2015 \$'000	31 December 2015 \$'000	31 December 2015 \$'000
Revenue from continuing operations	10,940	1	10,941
Community grants expense	(199)	199	-
Profit before tax	2,266	200	2,466
Net profit for the period	1,501	200	1,701
Total comprehensive income	1,501	200	1,701

Consolidated Statement of Financial Position

	Half-year ended		
	As previously reported	Adjustments	Restated Balance
	30 June 2016 \$'000	30 June 2016 \$'000	30 June 2016 \$'000
Cash and cash equivalents	14,072	252	14,324
Total current assets	14,935	252	15,187
Total assets	17,672	252	17,924
Trade and other payables	2,014	(175)	1,839
Total current liabilities	4,688	(175)	4,513
Total liabilities	4,856	(175)	4,681
Net Assets	12,816	427	13,243
Retained earnings*	2,194	427	2,621
Total Equity	12,816	427	13,243

* Included in the \$427,000 adjustment to Retained Earnings is an adjustment of \$252,000 for Community grants provision as at 30 June 2015 that was intended to be directed to the Foundation on incorporation. The remainder of the adjustment relates to the elimination of intercompany transactions during the financial year ended 30 June 2016.

5 The Foundation results

As at and for the period ended 31 December 2016, the impact of The Foundation before intercompany eliminations is noted below:

	Half-year ended	
	31 December 2016 \$'000	31 December 2015 \$'000
Statement of Comprehensive income		
Revenue from Parent Entity	102	199
Interest income	3	1
Community grants expense	(100)	-
Surplus/(loss) for the period	5	200
	31 December 2016 \$'000	30 June 2016 \$'000
Statement of Financial Position		
Assets		
Cash and cash equivalents	370	252
Receivables from Parent Entity	102	395
Liabilities		
Payables	(40)	(220)
Net Assets	432	427
Equity		
Current year surplus / (loss)	5	175
Retained earnings	427	252
Total Equity	432	427

6 Remediation expense

	Half-year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Remediation expense	2,205	-

At 30 June 2016, the Group became aware of errors in the calculation of unit prices for the Australian Ethical Retail Superannuation Fund in respect of 30 June 2016 and prior years. In the year ended 30 June 2016, a provision of \$900,000 was raised based on the investigative work performed at the time.

During the period ended 31 December 2016, the errors were investigated and an additional provision has been raised to fully compensate members and in respect of consultant costs incurred to perform the investigative work. The additional expenses incurred during the period are \$1,045,000 for member remediation and \$1,160,000 for consultant costs.

7 Income tax expense

Income tax expense is recognised based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2016 was 29% (for the six months ended 31 December 2015: 34%).

8 Investment property

	31 December	30 June
	2016	2016
	\$'000	\$'000
Balance at beginning of period	-	-
Transfer from Property, Plant & Equipment	1,460	-
Depreciation for the period	(39)	-
Balance at end of period	1,421	-

During the period, the Canberra premises (Trevor Pearcey House) ceased to be Owner-occupied. The property is now being held as an Investment Property and is fully leased.

The Investment property is measured at cost less accumulated depreciation and impairment losses. The carrying value is reviewed annually to ensure it is not in excess of its fair value. The Investment property and its fixture and fittings are depreciated over their estimated useful life (5 - 40 years) on a straight-line basis. Gains or losses on sale are determined by comparing net proceeds with carrying amount.

Australian Ethical Investment Limited
Notes to the Consolidated financial statements
For the half-year ended 31 December 2016
(continued)

9 Provisions

	31 December 2016 \$'000	30 June 2016 \$'000
Provision for remediation	2,821	900

As stated in Note 6, last financial year the Group became aware of errors in the calculation of unit prices for the Australian Ethical Retail Superannuation Fund in respect of 30 June 2016 and prior years. As at 31 December 2016, \$2,821,000 (30 June 2016: \$900,000) is provided and unpaid.

10 Issued capital

Issues of ordinary shares by the Parent Entity

	No. Issued	Price	Amount \$'000
Balance at 1 July 2016	1,094,209		8,693
Shares issued to the Employee Share Trust - 1 September 2016	6,240	-	-
Shares issued due to rights vesting - 8 September 2016	14,812	\$ 81.11	1,201
Shares issued due to Employee Shares vesting - 14 October 2016	592	\$ 47.43	28
Balance at 31 December 2016	1,115,853		9,922

11 Dividends

(a) Dividends paid or payable during the reporting period

	Dividend Rate cps	Total Amount \$'000	Date of Payment	% Franked
Ordinary shares - 2016 final	180	2,009	23/09/2016	100

(b) Dividends not recognised at the end of the reporting period

	Half-year ended	
	31 December 2016 \$'000	31 December 2015 \$'000
In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 50 cents per fully paid ordinary share (2015: 120 cents), fully franked.	558	1,313

12 Commitments and contingencies

The nature of the Group's commitments is as disclosed in the Group's consolidated financial statements as at and for the period ended 31 December 2016.

(a) Operating leases

Operating leases relate to leases of office premises. The Group does not have an option to purchase the premises at the expiry of the lease period.

	31 December	30 June
	2016	2016
	\$'000	\$'000
Non-cancellable operating lease commitments		
Within one year	493	483
Later than one year but not later than five years	2,144	2,134
Later than five years	871	1,200
	3,508	3,817

Lease expense from operating leases where the Group is a lessee is recognised in expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. The respective leased assets are included in the Consolidated Statements of Financial Position based on their nature.

Lease incentives received to enter into operating leases are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Effective from 1 July 2016, the Company has taken a new 7 year operating lease for its Sydney office.

	31 December	31 December
	2016	2015
	\$'000	\$'000
Payments recognised as an expense		
Minimum lease payments recognised as an expense	355	132
	31 December	30 June
	2016	2016
	\$'000	\$'000

Liabilities recognised in respect of non-cancellable operating leases

Lease Incentive and straight-line liability

Current	136	80
Non-current	602	69
	738	149

(b) Guarantees

The Group has obtained a bank guarantee for \$504,000 over the rental of building premises at 130 Pitt Street.

12 Commitments and contingencies (continued)

(c) Other commitments

The Group has no other commitments and contingent assets and liabilities as at 31 December 2016.

13 Related party transactions

Australian Ethical Investment Limited acts as the responsible entity for the following Australian Ethical Trusts:

Name
Australian Ethical Australian Shares Fund
Australian Ethical Diversified Shares Fund
Australian Ethical Cash Fund
Australian Ethical Fixed Interest Fund
Australian Ethical International Shares Fund
Australian Ethical Advocacy Fund
Australian Ethical Property Trust
Australian Ethical Emerging Companies Fund
Australian Ethical Balanced Fund

Australian Ethical Superannuation Pty Limited acts as trustee for the Australian Ethical Retail Superannuation Fund.

Terms and conditions

Transactions between related parties are on commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

No provision for doubtful debts has been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Outstanding balances are unsecured and are repayable in cash.

14 Share-based payments

The following share-based payment arrangements existed at 31 December 2016:

(a) Performance rights (equity-settled)

Under the Australian Ethical Investment Limited employee share incentive scheme (ESIS) that existed until August 2014, participants were granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. The number of shares that the participant will ultimately receive will depend on the extent to which the performance criteria are met by the Group and the individual employee. These rights were issued for nil consideration with these rights holding no voting or dividend rights.

On 8 September 2016, the final performance rights vested in relation to the performance period ended 30 June 2016.

(i) Fair value of rights granted

All rights were calculated at grant date based on the underlying share prices minus estimated net present value of future dividends that the holders of rights are not entitled to.

Included under employee benefits expense in the consolidated statement of comprehensive income is \$nil (31 December 2015: \$446,073) relating to rights issued under the ESIS.

14 Share-based payments (continued)

(b) Deferred shares

Under the long term incentive scheme introduced in 2014, participants are granted shares subject to meeting specified performance criteria over the performance period. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration with the shares having voting rights and employees receive dividends.

Included under employee benefits expense in the consolidated statement of comprehensive income is \$220,553 (2015: \$179,232) relating to the deferred shares granted.

Deferred shares are held in an Employee Share Trust until vesting conditions are met.

Performance shares summary

Performance Period	Grant date	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
FY 2015	31/08/2014	31/08/2017	14,924	(2,530)	-	-	12,394
FY 2016	31/08/2015	31/08/2018	12,190	(1,832)	(245)	-	10,113
FY 2017	31/08/2016	31/08/2019	10,663	-	(347)	-	10,316

15 Events occurring after the reporting period

Other than the dividend declared subsequent to period end, no other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

**Australian Ethical Investment Limited
Directors' Declaration
For the half-year ended 31 December 2016**

In the opinion of the Directors of Australian Ethical Investment Limited and its Controlled Entities:

- (a) the Consolidated interim financial statements and notes set out on pages 7 to 18 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the six month period ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Phil Vernon
Managing Director and Chief Executive Officer

Sydney
27 February 2017