MLC Limited
ABN 90 000 000 402
Annual Financial Report 2015

MLC Limited
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MLC Limited
Directors' report

The Director's present their report, together with the general purpose financial statements of MLC Limited (the Company) for the year ended 30 September 2015 and the auditor's report thereon.

Certain definitions
The Company's financial year ends on 30 September. The financial year ended 30 September 2015 is referred to as 2015 and other financial years are referred to in a corresponding manner. Any discrepancies between total and sums of components in tables contained in this report and accompanying financial statements are due to rounding.

Rounding
Pursuant to Australian Securities and Investment Commission (ASIC) Class order 98/100 dated 10 July 1998 the Company has rounded off amounts in this report and the accompanying financial statements to the nearest million dollars ($m), except where indicated.

Directors
The Directors of the Company at any time during or since the end of the financial year are:

Director	Appointed	Resigned
S C Birkensleigh	27 February 2012	
A C Gale	3 December 2014	
P Gupta	1 September 2012	
D M Hackett	29 January 2014	
A Hagger	22 May 2013	
A W Rothery	14 April 2009	31 October 2014
E Rubin	22 May 2013	
G A Tomlinson	30 June 2000	18 December 2014

Unless indicated otherwise, all Directors held their position as a Director throughout the entire financial year and up to the date of this report.

Principal activities
The Company is a for-profit entity and its principal activities during the course of the financial year were the provision of life insurance products and life investment products.

There were no significant changes in the nature of the activities of the Company during the financial year.

Corporate information
The Company is a company limited by shares that is incorporated and domiciled in Australia. The address of its registered office is 105-153 Miller St, North Sydney, NSW 2060. The immediate parent entity is MLC Holdings Limited and the ultimate parent entity is National Australia Bank Limited (NAB).

Review and results of operations
The profit after income tax for the year ended 30 September 2015 is $398 million (2014: $189 million). The profit was attained in the normal course of operations of the Company.

Dividends
A proposed final dividend for the year ended 30 September 2015 of 12.99 cents per fully paid ordinary share and will be presented to the Directors for approval in November 2015. The dividend amount is $239.8 million (2014: nil) and is not provisioned for in the 2015 financial statements.

Dividends paid since the end of the previous financial year:

- Interim dividends for the year ended 30 September 2015 of 13.30 cents per fully paid ordinary share. The payment amounts were $272 million.

Since becoming a member of the NAB tax-consolidated group, dividends paid by the Company are not franked. All franking credits are recognised in the consolidated financial statements of NAB. Accordingly, franking credits are not disclosed in the Company's financial statements.

State of affairs
During the financial year, MLC Limited has entered into a reinsurance agreement for approximately 21% of its in-force retail advised insurance book, as at 1 July 2015. The reinsurance agreement also extends to new business written from that date. The transaction has enabled the release of $496m of capital to NAB. The ongoing distribution of life insurance products and services to the Company's customers is not affected by this transaction.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Company that occurred during the financial year.

Environmental regulation and performance
The operations of the Company are not subject to any site specific environmental licences or permits which would be considered as particular or significant environmental regulation under laws of the Australian Commonwealth Government or of an Australian state or territory.

Events subsequent to end of the reporting period
On 28 October 2015, NAB announced its intention to sell 80% of the Group's Life Insurance business to Nippon Life. The transaction is expected to be completed in late 2016, subject to certain conditions including regulatory approvals, establishment of the Life Insurance business as a standalone entity, extraction of the superannuation business from the Company and the finalisation of certain agreements.

The transaction will occur through the sale of 80% of the Company after the required restructuring. The NAB Group will retain a 20% investment in MLC Limited, and will enter into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. The Group will also retain the MLC brand, although it will be licensed for use by the life insurance business for 10 years.

The NAB Group will retain responsibility for managing the life insurance business until completion, subject to certain restrictions around material transactions and transactions outside the ordinary course of business.

The financial impact of the restructuring on the Company cannot be reliably estimated at this time.

No other items, transactions or events of a material and unusual nature have arisen between the end of the financial year and the date of this report, which are likely, in the opinion of the Directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely developments
Information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in the report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

MLC Limited
Directors' report (continued)

Indemnification and insurance of officers and auditor

(i) Indemnification
As permitted by its constitution, the Company indemnifies, to the extent permitted by law, each Director and secretary of the Company for all liability incurred in their capacity as a Director or secretary of the Company (including all legal costs of and in connection with defending or resisting proceedings in which they become involved because of that capacity). The Company has or is in the process of executing deeds of indemnity in favour of each Director of the Company, where required. The Company has not provided an indemnity to the auditor of the Company.

(ii) Insurance premiums
During the financial year a related entity paid premiums in respect of contracts insuring Directors and officers for liability and legal expenses for the year ended 30 September 2015. Since the financial year end, a related entity has paid or agreed to pay, premiums in respect of such insurance contracts for the year ending on 30 September 2016. Such insurance contracts insure against certain liabilities (subject to specific exclusions) for persons who are or have been Directors or executive officers of the Company.

Disclosure of the nature of the liabilities and the amount of the premium is prohibited by the confidentiality clause of the contracts of insurance.

Auditor's independence declaration

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

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

Director

Sydney
6 November 2015

Director

Sydney
6 November 2015

Building a better
working world

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of MLC Limited

In relation to our audit of the financial report of MLC Limited for the financial year ended 30 September 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Graeme McKenzie
Partner
6 November 2015

MLC Limited
Financial statements for the year ended 30 September 2015
Statement of comprehensive income

	Note	2015 $m	2014 $m
Premium and related revenue	2	1,660	1,570
Fee revenue	2	600	576
Investment revenue	2	4,564	6,197
Other operating revenue	2	25	22
Total revenue		6,849	8,365
Claims expense	3	(823)	(940)
Change in life insurance contract policy liabilities	10	(246)	(397)
Change in life investment contract policy liabilities	10	(4,198)	(5,615)
Change in liabilities ceded under reinsurance	10	(49)	29
Change in policyholder retained profits	11	(1)	-
Operating expenses	3	(1,043)	(1,047)
Total expenses		(6,360)	(7,970)
Profit before income tax		489	395
Income tax refund/(expense) – policyholder		54	(139)
Income tax expense – shareholder		(145)	(67)
Total income tax expense	4	(91)	(206)
Profit after tax attributable to owners of the Company		398	189
Other comprehensive income for the period net of tax		-	-
Total comprehensive income for the period attributable to owners of the Company		398	189

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

MLC Limited
Financial statements for the year ended 30 September 2015
Balance sheet

	Note	2015 $m	2014 $m
Assets			
Cash and cash equivalents	16(a)	2,497	2,246
Financial assets at fair value through profit or loss	6(a)	76,441	72,377
Loans and other receivables	6(b)	492	640
Investments in controlled entities	17	108	108
Intangible assets	7	17	43
Life insurance policy liabilities ceded under reinsurance	10	304	353
Deferred tax assets	4	49	37
Total assets		79,908	75,804
Liabilities			
Payables	8	371	272
Provisions	9	141	61
Life insurance contract liabilities	10	2,860	2,614
Life investment contract liabilities	10	73,580	69,224
Policyholder retained profits	11	106	105
Financial Liabilities	12	14	130
Deferred tax liabilities	4	650	842
Total liabilities		77,722	73,248
Net assets		2,186	2,556
Equity			
Contributed equity	13	1,861	2,357
Capital reserve	14	61	61
Retained profits	15	264	138
Total equity		2,186	2,556

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

MLC Limited
Financial statements for the year ended 30 September 2015
Cash flow statement

	Note	2015 $m	2014 $m
Cash flows from operating activities			
Premiums received relating to life insurance contracts		1,778	1,712
Premiums received relating to life investment contracts		9,445	11,644
Payments in respect of life insurance contracts		(991)	(1,078)
Payments in respect of life investment contracts		(8,666)	(9,803)
Interest received		679	678
Dividends and distributions received		973	890
Net cash (paid)/received in respect of reinsurance transactions		(3)	10
Other investment revenue in the course of operations		1,010	593
Income tax (refund)/paid		(70)	42
Fees and commissions paid		(519)	(497)
Other cash payments in the course of operations		(463)	(411)
Net proceeds from sale of investments backing life insurance policies		782	303
Net payment arising from sale and purchase of investments backing life investment policies		(2,936)	(3,478)
Net cash from operating activities	16(b)	1,019	605
Cash flows used in investing activities			
Net movements in loans to commonly controlled entities		-	1
Net cash used in investing activities		-	1
Cash flows used in financing activities			
Return of capital	13	(496)	-
Dividends paid	5	(272)	(484)
Net cash used in financing activities		(768)	(484)
Net increase in cash and cash equivalents		251	122
Cash and cash equivalents at the beginning of the period		2,246	2,124
Cash and cash equivalents at the end of the period	16(a)	2,497	2,246

The above Cash flow statement should be read in conjunction with the accompanying notes.

MLC Limited

Financial statements for the year ended 30 September 2015

Statement of changes in equity

	Contributed equity [1]	Capital Reserves [2]	Retained profits [3]	Total Equity
	$m	$m	$m	$m
Year to 30 September 2014				
At 1 October 2013	2,357	61	433	2,851
Net profit for the year	-	-	189	189
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	189	189
Transactions with owners, recorded directly in equity:	-	-	-	-
Issue of shares	-	-	-	-
Dividends paid	-	-	(484)	(484)
Total transactions with owners	-	-	(484)	(484)
Balance at 30 September 2014	2,357	61	138	2,556
Year to 30 September 2015				
At 1 October 2014	2,357	61	138	2,556
Net profit for the year	-	-	398	398
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	398	398
Transactions with owners, recorded directly in equity:	-	-	-	-
Issue of shares	-	-	-	-
Return of capital	(496)	-	-	(496)
Dividends paid	-	-	(272)	(272)
Total transactions with owners	(496)	-	(272)	(768)
Balance at 30 September 2015	1,861	61	264	2,186

[1] *Refer to Note 13 for further details.*

[2] *Refer to Note 14 for further details.*

[3] *Refer to Note 15 for further details.*

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

1 Significant accounting policies

The financial report for MLC Limited (the Company) for the year ended 30 September 2015 was authorised for issue on 6 November 2015 in accordance with a resolution of the Directors. The directors have the power to amend and reissue the financial statements.

The Company is a for-profit company, limited by shares, incorporated and domiciled in Australia.

The nature of the operations and principal activities of the Company are described in the Directors' report. Information about the Company's structure, including its parent and ultimate parent, are included in Note 21 Related party disclosures.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the *Corporations Act* 2001 (Cth), and accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB). The financial report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant accounting standards. Accounting policies have been consistently applied to all periods presented, unless otherwise stated.

The Company has elected not to present consolidated financial statements as permitted by paragraph 4 of AASB 10 *Consolidated Financial Statements*. Consolidated financial statements that comply with International Financial Reporting Standards are produced by the ultimate parent company, National Australia Bank Ltd (NAB), incorporated in Australia. These consolidated financial statements are publicly obtainable from Level 1, 800 Bourke Street, Docklands, Victoria 3008, Australia.

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expense and the disclosed amounts of contingent liabilities. Areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Company are discussed in the accounting policy Note 1(u) – *Critical accounting assumptions and estimates.*

Comparative information has been re-presented to accord with changes in presentations made in the current year, except where otherwise stated.

(b) Statement of compliance

The financial statements have been prepared in accordance with the requirements of Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies adopted are consistent with those of the previous financial reporting period, except as follows:

(c) New and amended accounting standards and interpretations

(i) Changes in accounting policy and disclosure

There were no new accounting standards or interpretations issued by the Australian Accounting Standards Board that had a material impact on the amounts recognised in the financial statements or related disclosures.

1 Significant accounting policies (continued)

(ii) Early adoptions

AASB9 Financial Instruments

The Company elected to early adopt AASB 9 which was applied retrospectively from 1 October 2014. In accordance with the transition requirements, comparatives are not restated. The Company elected an accounting policy choice under AASB 9 to continue to apply the hedge accounting requirements under AASB 139 Financial Instruments: Recognition and measurement.

The early adoption of AASB 9 has no material impact to the Company.

(iii) New and amended accounting standards and interpretations issued but not yet effective

The following issued, but not yet effective, new and amended Australian Accounting Standards and AASB Interpretations have not been applied in preparing this financial report:

IFRS 15 Revenue from Contracts with Customers establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five step model to be applied to all contracts with customers. The impact of this standard is still being assessed, and is not applicable to the Company until 1 October 2018.

(d) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(e) Rounding of amounts

In accordance with the Australian Securities and Investment Commission Class Order 98/100 dated 10 July 1998, all amounts have been rounded to nearest million dollars, except where indicated.

(f) Foreign currency translation

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the Statement of comprehensive income.

Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(g) Investments in controlled entities

Investments in controlled entities other than those backing policyholder liabilities, are carried at cost less any provision for impairment (refer to Note 1(n)). Controlled entities are those entities over which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis.

1 Significant accounting policies (continued)

(h) Life insurance

The life insurance operations of the Company are conducted within separate funds as required by the *Life Insurance Act* 1995 (Cth) and are reported in aggregation with the Shareholders' Fund in the Statement of comprehensive income, Balance sheet, Statement of changes in equity and Cash flow statement of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance and life investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident, illness or, in the case of an annuity, the continuance of the annuitant's life. The insured benefit is either not linked or only partly linked to the market value of the investments held, and the financial risks are substantially borne by the Company.

Traditional business as well as participating investment account business are classified as insurance contracts. Any other products sold that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked business where the benefit amount is directly linked to the market value of the investments held in the particular investment-linked fund. While the underlying assets are registered in the name of the Company and the investment-linked policyholder has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policyholder bears the risks and rewards of the fund's investment performance. The Company derives fee income from the administration of investment-linked policies and funds.

Policy contracts that include both investment-linked and non-investment linked elements are separated into these two elements and reported accordingly. All other operating activities of the Company are conducted within the Shareholders' Fund.

(i) Allocation of profit

Life insurance contracts
Profits are brought to account in the Statutory Funds on a Margin on Services (MoS) basis in accordance with Actuarial Standards. Under MoS, profit is recognised as services are provided to policyholders over the life of the contract that reflects the pattern of risk accepted from the policyholder. When premiums are received but the service has not been provided, profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of life insurance policies to be charged to the Statement of comprehensive income over the period that the policy will generate profits. However, costs may only be deferred to the extent that a policy is expected to be profitable.

Profits arising from policies comprising non-investment-linked business are based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and commission, and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act* 1995 (Cth) and the life insurance company's constitution. This profit sharing amount is treated as an expense in the Statement of comprehensive income.

1 Significant accounting policies (continued)

Life investment contracts
Premium received in respect of investment contracts is not recognised as revenue. Amounts received from policyholders in respect of investment contracts comprise:

- Origination fees and ongoing investment management fees.
- Amounts credited directly to investment contract liabilities.

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested over operating expenses.

(ii) Premium and related revenue

Life insurance contracts
Premium amounts earned by bearing insurance risks are recognised as revenue.

For traditional business, all premiums are recognised as revenue.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums without a due date are recognised as revenue on a cash-received basis. Premiums due before the end of the financial year but not received as at year end are included as receivables in the Balance sheet. Premiums due after but received before the reporting date are accounted for as premiums in advance.

Life investment contracts
Premium amounts received net of initial fee income, which are akin to contributions, are recognised as an increase in policy liabilities. The initial fee which is the difference between the premium received and the initial surrender value is recognised as fee income.

(iii) Claims expense

Claims are separated into their expense and liability components.

Life insurance contracts
Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Claims incurred that relate to the provision of services and bearing risks, including protection business, are treated as expenses and recognised on an accruals basis.

For traditional business all claims are recognised as expenses as it is not possible to separate risk and investment components of claims.

Life investment contracts
Claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims paid in respect of investment contracts are not recognised as expenses. Amounts paid to policyholders in respect of investment contracts are akin to investment withdrawals and are recognised as a reduction in policy liabilities.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised as follows:

1 Significant accounting policies (continued)

(i) Dividend and distribution revenue

Dividend and distribution revenue is recorded in the Statement of comprehensive income on an accruals basis when the Company obtains control of the right to receive the income.

(ii) Interest revenue

Interest revenue is recognised in the Statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

(iii) Income from investments held at fair value through profit or loss

Gains and losses from changes in the fair value of investments recognised at fair value through profit or loss are recognised in the Statement of comprehensive income in the period in which they occur.

(iv) Fee revenue

Fees are charged to customers in connection with investment contracts and other financial services. Revenue is recognised over the period the service is provided. In some cases, services are provided at the inception of the contract, revenue that can be attributed to the services provided at inception is recognised at that time.

(j) Income tax

Current income tax
Income tax expense (or benefit) is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate in each jurisdiction adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the Statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income. The tax associated with these transactions will be recognised in the Statement of comprehensive income at the same time as the underlying transaction.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on a different basis. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:
- superannuation policies – 15% (2014: 15%);
- annuity policies – 0% (2014: 0%); or
- other policies – 30% (2014: 30%).

The Shareholder's Fund and fee income is taxed at the company rate of 30% (2014: 30%).

Deferred income tax
Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and for unused tax losses. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

1 Significant accounting policies (continued)

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and they relate to income tax levies by the same tax authority.

Tax consolidation
NAB and its wholly owned Australia resident entities, including the Company, formed a tax-consolidated group with effect from 1 October 2002 and are taxed as a single entity from that date. The head entity of the tax-consolidated group is NAB.

The Company has entered into a tax funding agreement that sets out its funding obligations of the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant taxation authority.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax-consolidated group, including the Company, under the tax funding agreement.

Goods and Services Tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of tax incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the tax is recognised as part of the expense or part of the cost of acquisition of the asset.

Receivables and payables are stated inclusive of GST. The net amount of tax recoverable from, or payable to, the ATO is included as a receivable or payable in the Balance sheet. Cash flows are included in the Cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO is classified as operating cash flows.

(k) Cash and cash equivalents

Cash and cash equivalents comprise the net amount of short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes).

(l) Financial instruments

Recognition and derecognition of financial instruments
A financial asset or financial liability is recognised in the Balance sheet when the Company becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

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

A financial liability is derecognised from the Balance sheet when the Company has discharged its obligation or the contract is cancelled or expires.

1 Significant accounting policies (continued)

Offsetting
Financial assets and liabilities are offset and the net amount is presented in the Balance sheet when the Company has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investments relating to life insurance business
All investments held in Statutory Funds are considered policy liabilities to back life insurance business and are classified as fair value through profit or loss.

Investments in financial assets measured at fair value through profit or loss
Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the Statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains and losses are recognised in the Statement of comprehensive income as they arise.

Loans and receivables
Loans and advances are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any provision for doubtful debts.

Derivative financial instruments
Derivatives are classified as fair value through profit or loss. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Assets and liabilities held in the Statutory Funds of the Company are subject to the restrictions of the *Life Insurance Act* 1995 (Cth) and the constitution of the Company. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act* 1995 (Cth) are met.

(m) Intangible assets

Intangible assets acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incremental costs directly attributable to the acquisition.

Subsequent to acquisition, finite life intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives which vary from three to 15 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

(n) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Subsequent to acquisition, indefinite life intangible assets are stated at cost less impairment losses, if any. Indefinite life intangible assets are assessed for impairment annually or more frequently if there is indication that the intangible asset may be impaired.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use.

1 Significant accounting policies (continued)

(o) Structured entities

Assessment of interests in structured entities
A structured entity is an entity in which voting or similar rights are not the dominant factor in determining control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

The Company has assessed whether any entities in which it has an interest should be classified as structured entities. The Company has considered the voting rights and other similar rights and concluded that its interests in investment funds with which the Company has a special relationship are deemed to be interests in structured entities. A special relationship occurs where the Company or a related party is acting as the responsible entity of the investment funds.

The Company's maximum exposure to loss relating to interests in unconsolidated structured entities is comprised of the carrying value of its investment plus any investment commitments in relation to those funds. The carrying value of investments in structured entities is included in Financial assets at fair value through profit or loss and any unfunded investment commitments are included in the Commitments, contingencies and fiduciary activities note.

(p) Trade and other receivables

Trade debtors and GST receivable are generally settled on 60 day terms and are recognised and carried at amortised cost less an allowance for doubtful debts. Given the short term nature of most receivables, the recoverable amount approximates fair value.

Amounts receivable from related policies are interest free and repayable at call.

(q) Life policy liabilities

Life policy liabilities consist of life insurance contract liabilities and life investment contract liabilities.

Life insurance contracts
Life insurance contract liabilities are typically determined using a projection method, whereby estimates of policy cash flows are projected into the future using best estimate assumptions and discounted back to the present valuation date. Refer to note 10(b)(iii).

The assumptions used in the calculation of policy liabilities are reviewed at least annually.

The accumulation method may be used if it produces results that are not materiality different from those produced by the projection method.

Life policy liabilities in the Company's Balance sheet and the change in policy liabilities in the Company's Statement of comprehensive income have been calculated in accordance with Prudential Standard LPS 340 'Valuation of Policy Liabilities' issued by the Australian Prudential Regulation Authority (APRA).

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

For reinsurance contracts, the Company retains the primary obligation of the underlying life insurance contract.

1 Significant accounting policies (continued)

Life investment contract liabilities
Policy liabilities relating to life investment contracts are measured at fair value. As the value of these liabilities is closely linked to the performance and value of the assets that support the liabilities, the fair value of such liabilities is the same as the fair value of those assets.

Policyholder retained profits
Participating benefits vested in policyholders in relation to the financial year are treated as expenses and recognised as a component of policy liabilities until paid. Participating benefits that are unvested are recognised as expenses in the reporting period, and a corresponding liability for policyholder retained profits is recognised.

Basis of expense apportionment
All operating expenses relating to life insurance contracts and investment contract activities are apportioned between acquisition, maintenance and investment management expenses. The life company expenses charged to the Statement of comprehensive income are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act* 1995 (Cth) as follows:

(i) Expenses and other outgoings that relate specifically to a particular Statutory Fund have been directly charged to that fund.

(ii) Expenses and other outgoings (excluding commissions, medical fees and stamp duties relating to policies, which are all directly charged) are apportioned between classes of business by first allocating the expenses to major functions and activities (including those of sales support and marketing, new business processing and policyholder servicing) and then to classes of products using relevant activity cost drivers (including policy counts, premiums and funds under management).

(iii) Investment related expenses have been directly charged to the appropriate fund.

The costs apportioned to life insurance contracts are included in the determination of the policy liability described above.

The costs incurred in selling or generating new life investment contracts are expensed in the year in which they are incurred.

(r) Provisions and contingent liabilities

A provision is recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not discounted to the present value of the expected net future cash flows except where the time value of money is material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Balance sheet but are disclosed unless the likelihood of payment is remote.

(s) Payables

Payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the reporting period that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Given the short term nature of most payables, the carrying amount approximates fair value.

Amounts payable to related parties are interest free and repayable at call.

1 Significant accounting policies (continued)

(t) Contributed equity

(i) Ordinary shares

In accordance with the *Corporations Act* 2001 (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

(u) Critical accounting assumptions and estimates

The application of the Company's accounting policies requires the use of certain judgments, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Company.

Assumptions made at the end of each reporting period are based on best estimates at that date. Although the Company has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgement, estimates and assumptions are included in the policies below.

Fair value measurement
A significant portion of financial instruments are carried on the Balance sheet at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Company has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Company uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

1 Significant accounting policies (continued)

Life insurance policyholder liabilities
The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each reporting date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at least annually. Deferred acquisition costs are presented as an offset in policy liabilities.

2 Revenue

	2015 $m	2014 $m
Premium and related revenue		
Total life insurance and investment contract premium received and receivable	10,622	12,778
Less: Amount recognised as a change in policy liabilities	(8,827)	(11,053)
Life insurance contract premium revenue	1,795	1,725
Less: Outwards reinsurance expense	(660)	(155)
Add: Reinsurance commissions received	525	-
	1,660	1,570
Fee revenue		
Investment management and origination fees	600	576
Investment revenue		
Dividends and distributions	1,623	1,414
Interest revenue	1,042	748
Other income from investments held at fair value through profit or loss		
Net realised gains	3,639	1,868
Net unrealised (losses)/gains	(1,740)	2,167
	4,564	6,197
Other operating revenue		
Other revenue	25	22

3 Expenses

	2015 $m	2014 $m
Claims expense		
Total life insurance and investment contract claims paid and payable	9,662	10,885
Less: Amount recognised as a change in policy liabilities	(8,669)	(9,802)
Life insurance contract claims expense	993	1,083
Less: Reinsurance recoveries	(170)	(143)
	823	940
Operating expenses		
Policy acquisition expenses - life insurance contracts		
Commissions	60	63
Other	59	77
Policy acquisition expenses - life investment contracts		
Commissions	199	184
Other	14	11
Policy maintenance expenses - life insurance contracts		
Commissions	191	175
Other	192	180
Policy maintenance expenses - life investment contracts		
Commissions	69	74
Other	176	170
Investment management expenses	25	35
Other operating expenses	58	78
	1,043	1,047
Analysis of expenses by nature		
Amortisation expense	26	36
Commissions	519	496
Investment management expenses	25	35
Other operating expenses	473	480
	1,043	1,047

4 Income tax

	2015 $m	2014 $m
(a) Income tax expense:		
Current tax		
Current income tax charge	298	96
Amounts in relation to prior years	(3)	(3)
Deferred tax - temporary differences	(204)	113
Total income tax expense	91	206

(b) Reconciliation of income tax expense shown in the Statement of comprehensive income with prima facie tax payable on the pre-tax accounting profit

	2015 $m	2014 $m
Profit before income tax	489	395
Prima facie income tax expense at 30% (2014: 30%)	147	119
Add/(deduct) tax effect of amounts not deductible/(assessable)		
Amounts in relation to prior years	(3)	(3)
Tax expense attributable to policyholders	(38)	98
Rebate of tax on dividend	(9)	-
Other	(6)	(8)
Total income tax expense	91	206

	2015	2014
(c) Deferred tax		
Deferred tax assets		
Provisions	49	37
	49	37

Deferred tax assets of $91m (2014: $139m) have not been brought to account. These assets relate to policyholders of the Company and to preserve equity between policyholders this portion of deferred tax assets remains unbooked. They will be available for use as and when policyholders' realised taxable gains are available.

These deferred tax assets will only be obtained if:
- future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

4 Income tax (continued)

	2015 $m	2014 $m
Deferred tax liabilities		
Unrealised investment gains	650	836
Intangible assets	-	6
	650	842

(d) Tax consolidation

The following amounts have been recognised in respect of tax consolidation:

	2015 $m	2014 $m
Total decrease in intercompany assets of the Company	(226)	(135)

5 Dividends paid and proposed

Dividends on ordinary shares recognised by the Company for the year ended 30 September:

	2015 $m	2014 $m
Dividends on ordinary shares:		
Final dividend declared in respect of the year ended 30 September 2014: $nil per share (2013: $0.18 per share)	-	360
Interim dividend declared in respect of the year ended 30 September 2015: $0.13 per share (2014: $0.06 per share)	272	124
Total dividends paid and proposed by the Company during the year	272	484

Final dividend

A proposed final dividend for the year ended 30 September 2015 of 12.99 cents per fully paid ordinary share will be presented to the Directors for approval in November 2015. The dividend amount is $239.8 million.

Australian franking credits

Since becoming a member of the NAB tax consolidated group, dividends paid by the Company are not franked. All franking credits are recognised in the consolidated financial statements of NAB. Accordingly, franking credits are not disclosed in the Company's financial statements.

6 Financial assets

	2015 $m	2014 $m
(a) Financial assets at fair value through profit or loss		
Equity securities	47,394	46,430
Interest bearing securities	25,100	22,328
Property securities	3,947	3,619
Total financial assets at fair value through profit or loss	76,441	72,377

Financial assets at fair value through profit or loss of $9,589m (2014: $9,584m) are expected to be recovered within 12 months.

	2015 $m	2014 $m
(b) Loans and other receivables		
Investment income accrued and receivable	22	29
Outstanding premiums	68	74
Related party receivables:		
Ultimate parent entity - tax related	186	365
Commonly controlled entities	5	4
Unsettled investment transactions	10	14
Loans on policies	11	13
Trade and other debtors	190	141
Total loans and other receivables	492	640

Loans and other receivables of $413m (2014: $563m) are expected to be settled within 12 months.

7 Intangible assets

	2015 $m	2014 $m
Intangible assets		
At cost	134	134
Deduct: accumulated amortisation	(117)	(91)
Total Intangible Assets	17	43

Reconciliation of movements in intangible assets

Balance at beginning of year	43	78
Amortisation	(26)	(35)
Balance at the end of the year	17	43

Intangible assets include book of advisors and customer contracts.

8 Payables

	2015 $m	2014 $m
Related party payables		
Ultimate parent entity - tax related	59	12
Commonly controlled entities	4	4
Policy claims payable	122	118
Accrued expenses	119	82
Unsettled investment transactions	32	29
Trade and other creditors	35	27
Total payables	371	272

All payables are expected to be settled within 12 months (2014: all)

9 Provisions

	2015 $m	2014 $m
Superannuation contributions tax	73	(4)
Other	68	65
Total provisions	141	61

All provisions are expected to be settled within 12 months.

Reconciliations of movements in provisions

(i) Superannuation contributions tax	2015 $m	2014 $m
Balance at the beginning of the year	(4)	77
Provision made	249	231
Amounts used	(172)	(312)
Balance at the end of the year	73	(4)

This represents contributions tax deducted from superannuation members' accounts which is payable to the ATO. This includes transfer of taxable contributions (Section 290-265 transfer) to the Company.

(ii) Other	2015 $m	2014 $m
Balance at the beginning of the year	65	20
Provision made	41	52
Provision released	(31)	(5)
Payments made	(7)	(2)
Balance at the end of the year	68	65

10 Policy liabilities

Life insurance contract liabilities	**2015 $m**	**2014 $m**
Best estimate liabilities		
Value of future policy benefits	7,139	9,231
Value of future expenses	948	1,782
Future charges for acquisition costs	(25)	(27)
Value of future revenues	(7,719)	(11,227)
Total best estimate liabilities for life insurance contracts	343	(241)
Value of future profits		
Value of future policyholder bonuses	332	294
Value of future shareholder profit margins	1,881	2,208
Total value of future profits	2,213	2,502
Policy liabilities for life insurance contracts net of reinsurance	2,556	2,261
Policy liabilities ceded under reinsurance	304	353
Policy liabilities for life insurance contracts	2,860	2,614
Life investment contract liabilities		
Policy liabilities for life investment contracts	73,580	69,224
Total policy liabilities	76,440	71,838

In respect of life insurance contracts with a discretionary participating feature, the total value of declared bonuses is $38million (2014: $39million). In respect of life insurance contracts with a discretionary participating feature, there are $1,250million (2014: $1,281million) of liabilities that relate to guarantees. In respect of life investment contracts with a non-participating feature, there are $181million (2014: $247million) of liabilities that relate to guarantees. In respect of investment contracts, there are $3,274million (2014: $3,481million) of policy liabilities subject to investment performance guarantees.

10 Policy liabilities (continued)

Reconciliation of movements in policy liabilities

	2015 $m	2014 $m
Life insurance contract liabilities		
Balance at the beginning of the year	2,614	2,477
Increase reflected in the Statement of comprehensive income	246	397
Transfer from life insurance liabilities to life investment liabilities	-	(260)
Balance at the end of the year	2,860	2,614
Life investment contract liabilities		
Balance at the beginning of the year	69,224	62,098
Increase reflected in the Statement of comprehensive income	4,198	5,615
Transfer from life insurance liabilities to life investment liabilities	-	260
Premiums recognised in policy liabilities	8,827	11,053
Claims recognised in policy liabilities	(8,669)	(9,802)
Balance at the end of the year	73,580	69,224
Total policy liabilities at end of year	76,440	71,838
Life insurance policy liabilities ceded under reinsurance		
Balance at the beginning of the year	(353)	(324)
Increase/(decrease) in reinsurance assets reflected in the Statement of comprehensive income	49	(29)
Balance at the end of the year	(304)	(353)
Total policy liabilities at the end of the year net of reinsurance	76,136	71,485

For the majority of policy liabilities, there is no fixed settlement date. Based on the Company's assumptions as to likely withdrawal and claims patterns, it is estimated that the approximate amount that may be settled within 12 months is $1,095million for the insurance business (2014: $1,026million) and $8,494million for the investments business (2014: $8,558million).

The effective date of the Financial Condition Report is 30 September 2015. The actuarial report was prepared by the Appointed Actuary of the Australian Life Company, Darren Robinson BFin, FIAA who is satisfied with the accuracy of the data upon which policy liabilities have been determined. Policy liabilities have been determined in accordance with the *Life Insurance Act* 1995 (Cth) and with the standards set out by the Australian Prudential Regulation Authority (APRA).

10 Policy liabilities (continued)

(a) Details of the regulatory capital position of each Fund

Registered life insurance entities are required to hold regulatory capital, over and above the life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. The regulatory capital requirements comprise the Prescribed Capital Amount (PCA) as well as the Capital Base Regulatory Adjustments. These represent the minimum level of capital that the regulator deems must be held to meet policyholder obligations, at the 99.5% level of sufficiency.

In addition to the regulatory capital requirements, the Company maintains a target surplus providing an additional capital buffer against adverse events that could cause a breach of regulatory capital. The Company uses an internal capital model to determine its target surplus.

The regulatory capital position for each Fund and the Company is shown below in accordance with Prudential Standard LPS 110 *Capital Adequacy*:

	Statutory Funds							
At 30 September 2015 ($m)	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Fund No 6	Share-holder Fund	Total
Net assets	1,545	318	10	74	80	3	156	2,186
Regulatory adjustments	(872)	12	-	-	45	-	(103)	(918)
Total capital base	672	331	10	74	125	3	54	1,269
comprising of:								
Common Equity Tier 1 Capital	672	331	10	74	125	3	54	1,269
Additional Tier 1 Capital	-	-	-	-	-	-	-	-
Tier 2 Capital	-	-	-	-	-	-	-	-
Prescribed capital amount	279	179	3	39	58	-	25	583
consisting of:								
Insurance Risk Charge	208	-	-	-	7	-	-	215
Asset Risk Charge	29	30	2	7	36	-	2	106
Asset Concentration Risk Charge	-	-	-	-	12	-	22	34
Operational Risk Charge	55	149	1	32	5	-	-	242
Aggregation benefit	(21)	-	-	-	(5)	-	-	(26)
Combined stress scenario adjustment	9	-	-	-	3	-	1	13
Capital Adequacy Multiple (times)	2.41	1.85	3.87	1.89	2.18	-	2.12	2.20

10 Policy liabilities (continued)

(a) Details of the regulatory capital position of each Fund (continued)

	Statutory Funds							
At 30 September 2014 ($m)	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Fund No 6	Shareholder Fund	Total
Net assets	1,926	216	10	64	65	5	270	2,556
Regulatory adjustments	(1,484)	23	-	-	50	-	(117)	(1,528)
Total capital base	442	239	10	64	115	5	153	1,028
comprising of:								
Common Equity Tier 1 Capital	442	239	10	64	115	5	153	1,028
Additional Tier 1 Capital	-	-	-	-	-	-	-	-
Tier 2 Capital	-	-	-	-	-	-	-	-
Prescribed capital amount	429	190	4	47	66	-	31	767
consisting of:								
Insurance Risk Charge	286	-	-	-	5	-	-	291
Asset Risk Charge	27	49	3	17	42	-	6	144
Asset Concentration Risk Charge	-	-	-	-	15	-	23	38
Operational Risk Charge	54	141	1	30	5	-	-	231
Aggregation benefit	(20)	-	-	-	(4)	-	-	(24)
Combined stress scenario adjustment	82	-	-	-	3	-	2	87
Capital Adequacy Multiple (times)	1.03	1.26	2.89	1.35	1.75	-	4.91	1.34

(b) Actuarial methods and assumptions

(i) Policy liabilities

The policy liabilities have been calculated in accordance with Prudential Standard LPS 340 *Valuation of Policy Liabilities* issued by APRA (refer to Note 1). This measurement is consistent with the requirements of the applicable accounting standards: AASB 1038 for life insurance contracts and AASB 9 and AASB 118 for life investment contracts.

(ii) Types of business and profit carriers

The methods used, and in the case of insurance contracts, the profit carriers used in order to achieve the systematic release of profit margins are:

Product type	**Actuarial method**	**Profit carrier**
Investment-linked	Fair Value	n/a
Non-investment-linked		
Traditional business - participating	Accumulation	n/a
Traditional business - non-participating insurance riders	Projection	Claims
Individual term life insurance	Projection	Claims
Individual disability income insurance	Projection	Claims
Annuity business	Projection	Annuity payments
Group insurance	Accumulation	n/a
Term Deposits	Accumulation	n/a
Fixed Rate Options	Accumulation	n/a
Investment account	Accumulation	n/a
National Credit Card Cover	Accumulation	n/a

10 Policy liabilities (continued)

(b) Actuarial methods and assumptions (continued)

(iii) Discount rates

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations. Where the benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities are discounted using discount rates based on the market returns on assets backing life insurance liabilities.

Discount rates	2015	2014
Traditional business – participating		
Ordinary [(1)]	3.7%	4.0%
Superannuation [(1)]	4.5%	4.8%
Term life and disability income (excluding claims in payment) insurance[(2)]	3.2%	3.9%
Disability claims in payment [(2)]	2.8%	3.8%
Annuity business [(2)]	2.2%-2.9%	3.0%-3.8%

(1) After tax.
(2) Before tax

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase with inflation of 2.1% (2014: 2.6%) per annum. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the assumed growth in the consumer price index. The indexation applied may be subject to a specified minimum rate. The policy liabilities assume a future take-up of these indexation options based on the Company's recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability income and salary continuance claims is 2.1% (2014: 2.4%).

(v) Rates of taxation

Rates of taxation in relation to life insurance business are outlined in Note 1.

10 Policy liabilities (continued)

(b) Actuarial methods and assumptions (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the various bodies as indicated below, with adjustments to claim incidence and termination rates based on recent experience as follows:

Traditional business	Male: 75% of IA 95-97 (1) Female: 85% of IA 95-97 (1)
Term life insurance - Mortality	Male: 75%-100% of FSC 04-08 (2) Female:70%-90% of FSC 04-08 (2)
Term life insurance – Morbidity	TPD: 260% of FSC 04-08 (2) Trauma: 130%-137% of FSC 04-08 (2)
LoanCover / EasyCover term life insurance	Male/Female: 100% of FSC 04-08 (2)
Disability income insurance	Male: Rates similar to 130%-150% of incidence and 20%-110% of termination rates of IAD 89-93 (3) Female: Rates similar to 85%-90% of incidence and 20%-110% of termination rates of IAD 89-93 (3)
LoanCover / EasyCover disability income insurance	Male/Female: Rates similar to 110%-180% for non-smokers and 135%-225% for smokers of incidence and 20%-80% of termination rates of IAD 89-93 (3)
Annuity business	Male: 97.5% of IML00Ult(Base) (4) Female: 82.5% of IFL00Ult(Base) (4) Improvement Factors Male: 1.5% long term improvement assumptions Female: 1.0% of long term improvement assumptions

(1) IA 95-97 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.

(2) FSC 04-08 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 2004 to 2008.

(3) IAD 89-93 is a disability table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 1989 to 1993.

(4) IML00 and IFL00 are mortality tables developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1999 to 2002. The tables refer to male and female lives respectively. (There are no standard Australian annuitant mortality tables.)

(vii) Lapses

Assumed future average lapse rates for the major classes of business are as follows:

Product type	2015	2014
Traditional business - participating		
Ordinary	6%	6%
Superannuation	7%	7%
Term life insurance (Full;Partial) (1)	10-15%;1-4%	10-15%;1.4%
Disability insurance (Full;Partial) (1)	10-15%; 0.4%	10-15%;0.4%
LoanCover / EasyCover term life and disability insurance	17-35%	17-35%
National credit card	17-35%	17-35%

(1) "Full" refers to policies that have lapsed. "Partial" refers to a change in the sum insured.

10 Policy liabilities (continued)

(b) Actuarial methods and assumptions (continued)

(viii) Surrender values

Surrender values are based on the terms specified in policy contracts and typically allows for a recovery of policy acquisition and maintenance costs.

(ix) Future participating benefits

For participating business, bonus rates are set such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of participating business are:

	Ordinary business		Superannuation business	
	2015	2014	2015	2014
Bonus rate on sum assured	0.4%	0.4%	1.3%	1.3%
Bonus rate on existing bonuses	0.4%	0.4%	1.3%	1.3%

(c) Effects of changes in actuarial assumptions from:

	30 September 2014 to 30 September 2015		30 September 2013 to 30 September 2014	
Assumption category	Increase / (decrease) in future profit margins $m	Increase / (decrease) in net policy liabilities $m	Increase / (decrease) in future profit margins $m	Increase / (decrease) in net policy liabilities $m
Inflation	-	(35)	-	(1)
Market related changes to discount rates	(16)	90	(14)	125
Non-market related changes to discount rates	-	-	13	20
Mortality and morbidity	250	(120)	211	62
Lapse rates	(498)	28	(102)	(20)
Maintenance expenses	19	22	(202)	38
Other assumptions	137	6	345	(34)
Total	(108)	(9)	251	190

The numbers in the above table are net of reinsurance.

10 Policy liabilities (continued)

(d) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of changes in the key underlying variables such as mortality, morbidity, lapses and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk.

The table below illustrates how changes in key assumptions would impact the reported profit and policy liabilities of the Company in respect of life insurance business. Sensitivity to changes in the discount rate are shown in Note 19 Risk Management and Financial Instruments Information in accordance with AASB 7 Financial Instruments: Disclosures.

		2015 Gross (before reinsurance)		2015 Net (after reinsurance)	
	Change in variable	Profit/ (loss) and share-holders equity $m	Policy liabilities $m	Profit/ (loss) and share-holders equity $m	Policy liabilities $m
Discount rate	1% increase in discount rate	(3)	(73)	8	(78)
Inflation rates	0.5% increase in inflation rate	(21)	57	(10)	42
Annuitant mortality	50% increase in the rate of mortality improvement	(8)	12	(4)	6
Mortality & Morbidity-Lump Sum[(1)]	10% increase in mortality & morbidity rates	(5)	7	(14)	19
Morbidity –Disability Income	10% increase in disability incidence rates	(46)	66	(29)	42
Morbidity –Disability Income	10% decrease in disability termination rates	(141)	202	(93)	133
Lapse rates	10% increase in lapse rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	(5)	8	(5)	7

(1) TPD and Trauma (riders to Lump Sum products) morbidity rate sensitivities are included with Lump Sum products for the first time in 2015. Given existing profit margins, excluding TPD and Trauma the sensitivities to policy liabilities and profit/loss would have been negligible .

		2014 Gross (before reinsurance)		2014 Net (after reinsurance)	
	Change in variable	Profit/ (loss) and share-holders equity $m	Policy liabilities $m	Profit/ (loss) and share-holders equity $m	Policy liabilities $m
Discount rate	1% increase in discount rate	6	(91)	(3)	(78)
Inflation rate	0.5% increase in inflation rate	(18)	56	(13)	49
Annuitant mortality	50% increase in the rate of mortality improvement	(7)	11	(7)	11
Mortality	10% increase in mortality rates	(10)	15	(8)	12
Morbidity	10% increase in disability incidence rates	(60)	86	(59)	84
Morbidity	10% decrease in disability termination rates	(175)	250	(164)	234
Lapse rates	10% increase in lapse rates	(2)	3	(2)	3
Maintenance expenses	10% increase in maintenance expenses	(8)	12	(12)	18

10 Policy liabilities (continued)

(e) Terms and conditions of insurance contracts

The key terms and conditions of the life insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows are outlined below.

Type of contract	Nature of product	Key variables affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapses, expenses
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality, expenses
Conventional with discretionary participating benefits	Combination of life insurance and savings Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapses, expenses, investment earnings

11 Policyholder retained profits

	2015 $m	2014 $m
Balance at the beginning of the year	105	105
Increase in policyholder retained profits recognised in Statement of comprehensive income	1	-
Balance at the end of the year	106	105

All policyholder retained profits are expected to be settled after 12 months.

12 Financial liabilities

	2015 $m	2014 $m
Derivatives	14	130

13 Contributed equity

Issued and paid-up share capital

1,846,312,429 (2014: 2,045,286,160) ordinary shares, fully paid	1,861	2,357

Ordinary shares

There was a capital reduction of $496million (2014: Nil) during the current financial year as shown in the Statement of changes in equity.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.
In the event of a winding-up of the Company, ordinary shareholders rank after creditors. The Company does not have authorised share capital or par value in respect of its issued shares.

14 Capital Reserve

	2015 $m	2014 $m
Capital reserve	61	61

The capital reserve arose due to an intangible asset (representing customer contracts) transferred to the Company in the 2011 financial year.

15 Retained profits

	2015 $m	2014 $m
Balance at the beginning of the year	138	433
Net profit attributable to owners of the Company	398	189
Total available for appropriation	536	622
Dividends paid	(272)	(484)
Balance at the end of the year	264	138

16 Notes to the Cash flow statement

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the Cash flow statement are reconciled to the related items in the Balance sheet as follows:

	2015 $m	2014 $m
Cash at bank and cash equivalents	2,497	2,246

(b) Reconciliation of profit after tax attributable to members of the Company to net cash from operating activities

	2015 $m	2014 $m
Profit after tax	398	189
Add non-cash items:		
Amortisation	26	36
Changes in assets and liabilities:		
Increase in financial assets at fair value through profit and loss	(4,064)	(7,311)
Decrease in loans and other receivables	148	243
(Increase) in deferred tax assets	(12)	(27)
Increase in gross life investment contract policy liabilities	4,356	7,096
Increase in net life insurance policy liabilities	295	168
Decrease in policyholder retained profits	1	-
(Decrease)/increase in deferred tax liabilities	(192)	149
Increase in provisions and payables	63	62
Net cash from operating activities	1,019	605

17 Interests in controlled and other entities

Interest in controlled entities

The following table presents the material controlled entities of the Company as at 30 September 2015 and 30 September 2014:

Entity name	Principal place of business and country of incorporation	Ownership interest and proportion of voting rights	
		2015	**2014**
		%	%
Plum Financial Services Limited	Australia	100	100
MLC Nominees Pty Limited	Australia	100	100

The Company controls a number of unit trusts through its Statutory Funds as part of the ongoing investment activities of the life insurance and wealth businesses. These investment vehicles are excluded from the above list.

18 Commitments, contingencies and fiduciary activities

(a) Investment commitments

Investment commitments contracted for as at the reporting date are set out below:

	2015	**2014**
	$m	**$m**
Investment commitments	1,068	1,061

(b) Contingencies

Guarantees

A guarantee to the value of $5 million (2014: $5 million) has been provided by NAB to the Company and held in favour of a related party, PFS Nominees Pty Limited (PFS). The purpose of this guarantee is to meet the requirements of PFS's RSE Licence.

Litigation

The Company is a defendant from time to time in legal proceedings arising from the conduct of its business. At the reporting date the Company does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. There may be contingent liabilities in respect of claims, potential claims and court proceedings against the Company. The possibility that a liability may arise may be contingent on an uncertain future event, or if considered possible, it may not be probable. It is estimated the Company may have contingent liabilities of up to $15m (2014: $11m) at the reporting date.

18 Commitments, contingencies and fiduciary activities (continued)

(c) Fiduciary activities

Restrictions on assets
Assets held in the Statutory Funds are subject to the distribution and transfer restrictions and other requirements of the *Life Act* and the Constitution of the Company. Investments held in the Funds can only be used within the restrictions imposed under the *Life Act*. The main restrictions are that the assets in a Fund can only be used to meet the liabilities and expenses of that Fund, to acquire investments, to further the business of the Fund or as distributions when regulatory capital requirements are met. Shareholders in all Statutory Funds other than Statutory Fund 5 and participating policyholders can receive a distribution when regulatory capital requirements are met, whilst shareholders in Statutory Fund 5 can only receive a distribution following policyholders' distributions and subject to shareholder retained profits exceeding a certain percentage of policyholder retained profits.

19 Risk management and financial instruments information

Risk management

The Company is a member of the NAB Group and seeks to apply its governance and risk management framework. The NAB's Board has established a formal 'risk appetite statement' to help business units appropriately manage risk, return and capital.

The Company has a Risk Appetite Statement and Risk Management Framework which describes the key elements of its risk management framework and the strategies for managing material risks. The Company's board has ultimate responsibility for ensuring the effectiveness and appropriateness of its risk management framework. The Company's board has authorised and appointed an Executive Risk Committee, comprised of senior executives, to carry out risk management activities on its behalf.

Risks and mitigation

The financial condition and operating results of the Company are affected by a number of the key financial and non-financial risks.

Financial risks include primarily insurance risk, credit risk, market risk (including interest rate risk, equity price risk and currency risk) and liquidity risks. Within the Company a significant proportion of policyholder liabilities are directly linked to the performance of the assets held to back those liabilities (i.e. investment linked business). Consequently the financial risks associated with policyholder liabilities do not flow through to the Company and are omitted from the disclosures in this note, with the exception of the disclosure of fair value hierarchy. The non-financial risks include strategic (positioning and execution) risk, regulatory and compliance risk, and outsourcing risk.

These risks are set out in the remainder of this section.

Derivative financial instruments

The Company typically uses derivative financial instruments as part of its normal investment management activity. The Company may purchase and sell futures and options contracts from time to time to vary the exposure to asset classes, in the manner that other authorised investments are purchased and sold. Such contracts are not entered into for speculative purposes.

The Company restricts its exposure to credit losses on derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers). The credit risk associated with contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, there is the opportunity to settle outstandings on a net basis.

19 Risk management and financial instruments information (continued)

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

All derivatives are recorded in the Balance sheet at fair value as detailed in Note 1.

As at 30 September 2015, the gross derivative amount recorded in Financial liabilities was $(14)million (2014:$(130)million) which is made up of derivative liabilities $(18)million and derivative assets of $4million (2014: derivative liabilities of $(130)million). These derivative liability amounts had associated financial collateral pledged of $0.4m (2014: $1.26million of collateral received for derivative assets).

(a) Insurance risk

The life insurance business written by the Company is exposed to a number of insurance risks that requires appropriate risk management. These risks include underwriting, lapse, expense, reserving and claims management risks.

Insurance claims risk is generally managed through the use of claims management practices to ensure that only genuinely insured claims are admitted and paid, and ensuring premium rates and policy charges are priced at appropriate levels. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions. This is particularly necessary for disability business where claims are paid as an income. Disability income claims are monitored on a monthly basis to track the experience of the portfolio as a result of poor experience in recent years.

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. The underwriting process is regularly monitored by the Company's internal auditors to ensure adequate controls are in place over the underwriting process and that the controls are effective.

All reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels. These tools produce financial projections based on a number of possible scenarios providing a detailed analysis of the potential exposures.

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, equity prices and foreign currency exchange rates. Market risk arises in businesses due to fluctuations in both the value of liabilities and the value of investments held.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

Interest rate risk arises primarily from investments in debt securities. In addition, to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk.

The exposure to the Company comes primarily from the risk portfolio and the annuity portfolio in Statutory Fund 1 and the participating business in Statutory Fund 5.

The Company manages interest rate risk in accordance with the Company's Risk Appetite Statement by maintaining an appropriate mix of fixed and variable rate instruments and the management of maturity dates of interest bearing instruments.

19 Risk management and financial instruments information (continued)

The management of risks that relate to the life insurance business are also governed by the requirements of the *Life Insurance Act* 1995 (Cth) and APRA, both of which include provisions to hold reserves against unmatched assets and liabilities.

Interest rate sensitivity analysis

The following table demonstrates the sensitivity of the Statement of comprehensive income to a reasonably possible change in interest rates of 100 basis points.

Change in interest rates	Impact on profit after tax		Impact on Equity	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
+ 100 basis points	10.1	(9.7)	10.1	(9.7)
- 100 basis points	(17.0)	6.2	(17.0)	6.2

This analysis assumes that all other variables remain constant. The risks faced and methods used for the sensitivity analysis are consistent for both periods. The interest rate sensitivities of +/-100 bps have an opposite directional impact on profit compared to prior year. This is due to:

1) Loss reversal and change in deferred acquisition costs (DAC) from assumption changes having an impact on sensitivity of DAC to interest rate movements: when the interest rate increases by 100bps, DAC impact is +$4m (-$9m 2014), while for a 100bps decrease in interest rate, DAC impact is -$10m (+$5m 2014).

(ii) Equity and other price risk

Equity and other price risk is the risk that the fair value of equities and unit prices increase or decrease as a result of changes in market prices, whether these changes are caused by factors specific to an individual stock or factors affecting all instruments, or classes of instruments, in the market. The Company holds all of its equities and unit priced investments at fair value through profit or loss.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of investment-linked business. Equity and price risk exists in relation to the participating business and some excess assets within the Company.

Equity sensitivity analysis

The analysis below demonstrates the impact of a reasonably possible 10% movement in Australian and International equities as at the end of each reporting period. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments, and the indirect impact on fees from the Company's investment linked business has been excluded.

Change in equity prices	Impact on profit after tax		Impact on equity	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
10% increase	10.8	16.4	10.8	16.4
10% decrease	(10.8)	(16.4)	(10.8)	(16.4)

19 Risk management and financial instruments information (continued)

This analysis assumes that all other variables remain constant. The types of risks faced and methods used for the sensitivity analysis are consistent for both periods.

(iii) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a monetary financial instrument will fluctuate due to changes in foreign exchange rates.

The Company's financial assets are primarily denominated in the same currency as its policy liabilities. Currency forward foreign exchange contracts are entered into in order to facilitate efficient portfolio management by obtaining desired currency exposures or to hedge against existing holdings of certain investments in foreign currencies or significant foreign currency transactions.

The Company has limited exposure to currency risk from financial instruments held in currencies other than Australian dollars as the majority of such holdings are backing investment-linked liabilities. Exposure arises from the assets invested to back reserves.

Currency sensitivity analysis

The analysis below demonstrates the impact of a reasonably possible 10% movement in currency rates as at the end of each reporting period.

Change in currency rates	Impact on profit after tax		Impact on equity	
	2015	**2014**	**2015**	**2014**
	$m	**$m**	**$m**	**$m**
10% increase in foreign currency rates	6.5	10.1	6.5	10.1
10% decrease in foreign currency rates	(6.5)	(10.1)	(6.5)	(10.1)

Currency sensitivity includes the impact of hedging. This analysis assumes that all other variables remain constant. The types of risks faced and methods used for the sensitivity analysis are consistent for both periods. Statutory fund 5 is exposed to international assets.

(c) Credit Risk

Credit risk represents the risk of loss arising from the failure of the counterparty to meet its obligations as contracted.

Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value. For the investment linked business, this risk is borne by the policyholder.

The Company minimises concentrations of credit risk by undertaking transactions with a number of Board approved counterparties. In developing transaction guidelines, consideration is given to geographical distribution, counterparties to be used, aggregate limits and investment grade ratings. The Company is not materially exposed to any individual overseas country or region, or any individual counterparty.

Futures and options have minimal credit risk; as such risk is backed by clearing houses associated with recognised Stock or Futures Exchanges. Forward foreign currency contracts are subject to creditworthiness of counterparties, which are principally large financial institutions and are monitored as part of investment compliance procedures. Cash is mainly held with NAB which is rated AA-. Other material cash balances are held with Australian Deposit Taking Institutions which are rated AA-. No significant concentrations exist with any one counterparty.

Reinsurance is placed with high rated counterparties and each year-end management assesses the creditworthiness of its reinsurers. In addition, the Appointed Actuary provides advice on the suitability of reinsurance arrangements.

19 Risk management and financial instruments information (continued)

The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance sheet.

Credit quality

The table below represent an analysis of the credit quality of financial assets that are neither past due nor impaired, based on the following grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A-;
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB-; and
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ or worse.

The credit quality of financial assets, where there is credit risk to the Company, is as follows:

	Senior Investment grade $m	Investment grade $m	Sub-investment grade $m	No credit rating $m	Investment Linked [(1)] $m	Total $m
30 September 2015						
Financial assets - at fair value through profit or loss	1,606	-	-	1,717	73,118	76,441
Loans and other receivables	191	-	-	301	-	492
	1,797	-	-	2,018	73,118	76,933
30 September 2014						
Financial assets - at fair value through profit or loss	2,116	-	-	1,960	68,301	72,377
Loans and other receivables	368	-	-	272	-	640
	2,484	-	-	2,232	68,301	73,017

(1) The Company issues investment-linked investment policies in a number of its operations. In the investment-linked business the policyholder bears the investment risk on the assets held in the investment-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on investment-linked financial assets.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting commitments associated with financial liabilities.

The Company manages liquidity risk by ensuring that there is adequate access to reserves, banking facilities and borrowing commitments through ongoing monitoring of actual and forecasted cash flows.

The Company's primary financial risk on non investment-linked contracts is that income from the financial assets backing the liabilities is insufficient to fund the benefits payable.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

19 Risk management and financial instruments information (continued)

Maturity profiles

The following table analyses the Company's financial liabilities into relevant maturity groupings, based on the remaining period at the end of the reporting period to the contractual maturity date.

				Maturity			
	0-3 months	3-12 months	1-5 years	> 5 years	Investment Linked	No specific maturity	Total
30 September 2015	$m	$m	$m	$m	$m	$m	$m
Payables	312	59	-	-	-	-	371
Policy liabilities	206	302	51	5	72,830	3,046	76,440
Financial liabilities	14	-	-	-	-	-	14
	532	361	51	5	72,830	3,046	76,825
30 September 2014							
Payables	259	13	-	-	-	-	272
Policy liabilities	296	320	66	7	68,276	2,873	71,838
Financial liabilities	130	-	-	-	-	-	130
	685	333	66	7	68,276	2,873	72,240

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. If all such policyholders claimed their funds, there may be some delays in settling this liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk as a result of investment linked contracts. As a result, the tables in this section show investment linked liabilities in aggregate only, without any maturity analysis. The maturity profile for non-linked investment contracts e.g. term annuities, is provided above.

(e) Capital management

The Company's key objectives and principles for managing capital are to satisfy regulatory requirements, maintain business and operational requirements and ensure the Company's ability to continue as a going concern. In addition the Company seeks to maintain an optimal structure to reduce the cost of capital. In order to maintain, or adjust, the capital structure the Company may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares and sell assets.

Regulatory capital is the capital which the Company is required to hold as determined by legislative and regulatory requirements. During the year the Company has complied with all externally imposed capital requirements. Refer to Note 10(a).

Management regularly monitors the Balance sheet and compliance with regulatory capital requirements, as well as compliance with its internal capital buffers (target surplus) policies. This strategy is unchanged from prior year.

19 Risk management and financial instruments information (continued)

(f) Fair Value Measurements

The following table provides an analysis of financial instruments that are measured at fair value, using a hierarchy that reflects the significance of inputs used in measuring the fair value hierarchy. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair vale measurement in its entirety. The fair value hierarchy is as follows.

Level 1 fair value measurements - quoted prices (unadjusted) in active markets for identical financial assets or liabilities.

Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 30 September 2015				Fair value measurement as at 30 September 2014			
	Quoted market prices (Level 1) $m	Valuation techniques (observable inputs) (Level 2) $m	Valuation techniques (significant non-observable inputs) (Level 3) $m	Total $m	Quoted market prices (Level 1) $m	Valuation techniques (observable inputs) (Level 2) $m	Valuation techniques (significant non-observable inputs) (Level 3) $m	Total $m
Financial assets								
Equity securities	231	43,780	3,383[1]	47,394	447	43,347	2,638[1]	46,432
Interest bearing securities	4,806	20,294	-	25,100	4,839	17,489	-	22,328
Property securities	-	3,947	-	3,947	-	3,617	-	3,617
Total financial assets measured at fair value	5,037	68,021	3,383	76,441	5,286	64,453	2,638	72,377
Financial liabilities								
Derivatives	-	14	-	14	-	130	-	130
Life investment contract liabilities	-	73,580	-	73,580	-	69,224	-	69,224
Total financial liabilities measured at fair value	-	73,594	-	73,594	-	69,354	-	69,354

(1) Investments relating to life insurance business include private equity investments not traded in active markets. The fair value of these investments is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile and other factors. Given the bespoke nature of the fair value estimate, where the fair value of the underlying investment or net asset value represents fair value of the Company's investment, it is not practical to disclose the range of key unobservable inputs.

The fair value of other financial assets at fair value is calculated using discounted expected cash flows based on the maturity of the assets. The discount rates applied are based on the market interest rates at reporting date and the fair value incorporates future expectations of credit losses and the prepayment rate, which are unobservable inputs.

19 Risk management and financial instruments information (continued)

(f) Fair Value Measurements (continued)

The table below summarises movements in Level 3 balance during the year. Transfers in and out of Level 3 are due to changes in the observability of the inputs. Transfers have been reflected as if they had taken place at the end of the reporting period.

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 between the beginning and the end of each reporting period:

	Year to September 2015	Year to September 2014
	Assets	Assets
	Equity securities $m	Equity securities $m
Balance at the beginning of period	2,638	2,873
Total gains/(losses):		
Investment revenue	314	403
Purchases and issues	725	169
Sales and settlements	(294)	(807)
Balance at the end of period	3,383	2,638

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements for the Company is in respect of private equity investments included in investments relating to life insurance business. Changing one or more of the inputs for measurement of these investments relating to life insurance business to reasonably possible alternative assumptions would result in a change by the same amount to both the fair value of investments relating to life insurance business and life investment contract liabilities. Life investment contract liabilities are classified as Level 2 fair value measurements as the liabilities are not directly matched with individual underlying assets in the same statutory fund, and underlying assets with significant non-observable inputs are not significant to the fair value measurement of life investment contract liabilities in a statutory fund in their entirety.

Other than this, the Company has limited exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonably possible alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity.

20 Other life insurance disclosures

	2015 $m	2014 $m
(a) Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	143	117
Experience loss	(16)	(44)
Effects of changes to assumptions	3	(38)
Reversal of capitalised losses/(losses recognised)	28	(23)
Profit after income tax - Life insurance contracts	158	12
Life investment contracts		
Fees earned less expenses	181	182
Profit after income tax – life investment contracts	181	182
Other		
Investment earnings on shareholder retained profits and capital	49	26
Profit/(loss) from Shareholder Fund	10	(31)
Profit/(loss) after income tax – Other	59	(5)
Profit after income tax	398	189

	2015 $m	2014 $m
(b) Reconciliation to Life Act profit		
Profit after income tax	398	189
Bonuses provided for or paid in the current year		
Interim and terminal bonus on claims paid	24	24
Declared bonus on in force policies	14	15
Decrease in unvested policyholder benefits	1	-
Life Act profit after income tax	437	228
(c) Reconciliation of Life Act retained earnings		
Life Act retained earnings at the beginning of the year	9	304
Life Act profit after income tax	437	228
Dividend paid	(272)	(484)
Provision for bonuses to participating policyholders	(38)	(39)
Life Act retained earnings at the end of the year	136	9

20 Other life insurance disclosures (continued)

(d) Statutory fund information

(i) Details of statutory funds

The Company operates six statutory funds of which only Statutory Fund No. 5 has participating policies. The types of policies and major products are as follows:

Statutory Fund	Type of policy written	Major products
No. 1	Ordinary and superannuation business	Lump sum risk
		Disability income insurance
		Immediate annuity
		Term certain annuity
No. 2	Investment-linked superannuation business	Complying superannuation unit-linked
No. 3	Investment-linked ordinary business	Ordinary business unit-linked
No. 4	Investment-linked superannuation business	Segregated exempt asset unit-linked
No. 5	Ordinary and superannuation business	Traditional
No. 6	Retirement guarantees	Protected Income for Life

(ii) Abbreviated Statement of comprehensive income at fund level and company level

30 September 2015

	Statutory Funds							Shareholder	Total
	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 5 $m	Fund 6 $m	All funds $m	Fund $m	Company $m
Premium revenue									
Life insurance contracts	1,632	-	-	-	28		1,660	-	1,660
Investment revenue	142	3,506	25	750	111	-	4,534	30	4,564
Fee and other operating revenue	-	473	6	146	-	-	625	-	625
Total revenue	1,774	3,979	31	896	139	-	6,819	30	6,849
Claims expense									
Life insurance contracts	673	-	-	-	150	-	823	-	823
Change in policy liabilities	341	3,414	19	801	(82)	-	4,493	-	4,493
Change in policyholder retained profits	-	-	-	-	1	-	1	-	1
Other operating expenses	499	398	2	107	11	-	1,017	26	1,043
Total expenses	1,513	3,812	21	908	80	-	6,334	26	6,360
Profit/(loss) before income tax	261	167	10	(12)	59	-	485	4	489
Income tax (expense)/benefit	(77)	(16)	(5)	42	(41)	-	(97)	6	(91)
Net profit/(loss) after income tax	184	151	5	30	18	-	388	10	398

20 Other life insurance disclosures (continued)

30 September 2014

	Statutory Funds							Shareholder	Total
	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 5 $m	Fund 6 $m	All funds $m	Fund $m	Company $m
Premium revenue									
Life insurance contracts	1,501	-	-	-	69		1,570	-	1,570
Investment revenue	160	4,930	33	897	170	-	6,190	7	6,197
Fee and other operating revenue	1	453	6	138	-	-	598	-	598
Total revenue	1,662	5,383	39	1,035	239	-	8,358	7	8,365
Claims expense									
Life insurance contracts	708	-	-	-	232	-	940	-	940
Change in policy liabilities	463	4,628	22	936	(66)	-	5,983	-	5,983
Change in policyholder retained profits	-	-	-	-	-	-	-	-	-
Other operating expenses	482	391	2	98	18	-	991	56	1,047
Total expenses	1,653	5,019	24	1,034	184	-	7,914	56	7,970
Profit/(loss) before income tax	9	364	15	1	55	-	444	(49)	395
Income tax (expense)/benefit	(4)	(208)	(8)	39	(43)	-	(224)	18	(206)
Net profit/(loss) after income tax	5	156	7	40	12	-	220	(31)	189

(iii) Abbreviated Balance sheet at fund level and company level

30 September 2015

	Statutory Funds							Shareholder	Total
	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 5 $m	Fund 6 $m	All funds $m	Fund $m	Company $m
Investment assets	1,543	59,945	370	12,804	1,778	1	76,441	-	76,441
Policy liabilities ceded	304	-	-	-	-	-	304	-	304
Other assets	1,717	707	25	223	314	-	2,986	177	3,163
Total assets	3,564	60,652	395	13,027	2,092	1	79,731	177	79,908
Policy liabilities									
Life insurance contracts	1,257	-	-	-	1,603	-	2,860	-	2,860
Life investment contracts	564	59,692	354	12,783	187	-	73,580	-	73,580
Other liabilities	198	642	31	170	222	(2)	1,261	21	1,282
Total liabilities	2,019	60,334	385	12,953	2,012	(2)	77,701	21	77,722
Net assets	1,545	318	10	74	80	3	2,030	156	2,186
Contributed equity								1,861	1,861
Capital transfer between funds	1,838	139	6	31	15	1	2,030	(2,030)	-
Capital reserve	-	-	-	-	-	-	-	61	61
Retained profits	(293)	179	4	43	65	2	-	264	264
Total equity	1,545	318	10	74	80	3	2,030	156	2,186
Transfer from/(to) funds	(570)	(48)	(5)	(20)	-	(2)	(645)	645	-

20 Other life insurance disclosures (continued)

(iii) Abbreviated Balance sheet at fund level and company level (continued)

30 September 2014	Statutory Funds							Shareholder	Total
	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 5 $m	Fund 6 $m	All funds $m	Fund $m	Company $m
Investment assets	1,952	56,418	390	11,623	1,993	1	72,377	-	72,377
Policy liabilities ceded	353	-	-	-	-	-	353	-	353
Other assets	1,368	831	22	322	230	-	2,773	301	3,074
Total assets	3,673	57,249	412	11,945	2,223	1	75,503	301	75,804
Policy liabilities									
Life insurance contracts	985	-	-	-	1,629	-	2,614	-	2,614
Life investment contracts	689	56,225	373	11,677	260	-	69,224	-	69,224
Other liabilities	69	809	29	203	272	(4)	1,378	32	1,410
Total liabilities	1,743	57,034	402	11,880	2,161	(4)	73,216	32	73,248
Net assets	1,930	215	10	65	62	5	2,287	269	2,556
Contributed equity	-	-	-	-	-	-	-	2,357	2,357
Capital transfer between funds	1,837	140	6	31	15	1	2,030	(2,030)	-
Capital reserve	-	-	-	-	-	-	-	61	61
Retained profits	93	75	4	34	47	4	257	(119)	138
Total equity	1,930	215	10	65	62	5	2,287	269	2,556
Transfers from/(to) funds	(103)	(251)	(12)	(44)	(31)	4	(437)	437	-

21 Related party disclosures

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at the end of each reporting period.

Compensation of key management personnel	**2015** **$**	**2014** **$**
Short term employee benefits	2,447,434	2,618,752
Post employment benefits	92,022	76,937
Other long term benefits	36,396	-
Termination benefits	-	12,590
Share based payment	742,278	1,072,432
Total	3,318,130	3,780,711

21 Related party disclosures (continued)

Non-director related parties

The immediate parent entity of the company is MLC Holdings Limited and the ultimate parent entity is National Australia Bank Limited. Both companies are incorporated in Australia. Transactions with related parties are generally on arm's length terms and conditions. Amounts receivable from and payable to related parties are interest free and unsecured. These are shown in Notes 6 and 8.

Management services
The Company has entered into an agreement with a commonly controlled entity, NWMS, for the provision of management, administration and related services. Management fees are recognised on an accruals basis in accordance with agreed terms and conditions.

Distribution allowance
The Company has entered into an agreement with a commonly controlled entity, GWMAS, for the provision of distribution related services. The distribution allowance expense is recognised on an accruals basis in accordance with agreed terms and conditions.

Advisory services
The Company has entered into agreements with commonly controlled entities, JANA Corporate Investment Services Limited (formerly National Corporate Investment Services Limited) and JANA Investment Advisors Pty Limited for the provision of advisory services. Advisory fees are recognised on an accruals basis in accordance with agreed terms and conditions.

Commission services
The Company pays commissions based on commercial rates for the provision of product distribution services to a number of related companies.

Managed assets
The majority of unlisted unit trusts included in financial assets at fair value through profit or loss are managed by a commonly controlled entity, MLC Investments Limited. Management fees are borne directly by the unit trusts and a rebate of management fees is received by the Company.

The aggregate amounts paid to/(received from) related parties of the Company	2015 $'000	2014 $'000
Ultimate parent entity		
NAB - commission services	(329)	2,058
Common controlled entities		
MLC Investments Limited - managed assets	(14,278)	(13,082)
GWM Adviser Services Limited - distribution allowance	76,198	70,149
JANA Corporate Investment Services Limited – advisory services	(10,458)	(6,976)
JANA Investment Advisors Pty Limited – advisory services	29,873	22,616
National Wealth Management Services Limited – management services	319,622	326,664
National Wealth Management Services Limited – commission	426,259	412,516
	826,887	813,945

Interest offset arrangement
Under an interest offset arrangement provided by the Company's banks, eligible bank accounts within the National Wealth Management Holdings Limited group of Companies (NWMH Group) are grouped for the purposes of calculating interest. This ensures that balances of overdraft facilities utilised can be 'offset' by other bank balances held within NWMH Group, and NWMH Group only receives/pays interest on the net cash balance.
As at 30 September 2015, the Company held $45 million (2014: $143 million) of shareholder bank balances that were part of the interest offset arrangement.

22 Remuneration of external auditor

	2015 $	2014 $
Total amounts paid or due and payable to Ernst & Young Australia[1]:		
Audit of the financial statements	1,142,280	1,117,446
Audit related fees		
Regulatory	67,500	67,500
Other	49,910	59,600
Total remuneration of Ernst & Young Australia	1,259,690	1,244,546

[1] *Amounts exclude goods and services tax.*

Audit fees consist of fees for the audit of the annual financial statements of the company.

Audit-related fees have been divided into two sub-categories. Audit related fees (regulatory) consist of fees for services required by statue or regulation that are reasonably related to the performance of the audit or review of the Company's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Company's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls.

Other services consist of fees for assurance and related services that are not required by statute or regulation but are reasonably related to the performance of the audit or review of the company's financial statements and which are traditionally performed by the external auditor.

These fees are paid by a related party.

23 Subsequent events

On 28 October 2015, NAB announced its intention to sell 80% of the Group's Life Insurance business to Nippon Life. The transaction is expected to be completed in late 2016, subject to certain conditions including regulatory approvals, establishment of the Life Insurance business as a standalone entity, extraction of the superannuation business from the Company and the finalisation of certain agreements.

The transaction will occur through the sale of 80% of the Company after the required restructuring. The NAB Group will retain a 20% investment in MLC Limited, and will enter into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. The Group will also retain the MLC brand, although it will be licensed for use by the life insurance business for 10 years.

The NAB Group will retain responsibility for managing the life insurance business until completion, subject to certain restrictions around material transactions and transactions outside the ordinary course of business.

The financial impact of the restructuring on the Company cannot be reliably estimated at this time.

No other items, transactions or events of a material and unusual nature have arisen between the end of the financial year and the date of this report, which are likely, in the opinion of the Directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

MLC Limited

Directors' declaration

In the opinion of the Directors of MLC Limited:

(a) the financial statements and notes, are in accordance with the *Corporations Act 2001* (Cth), including:

(i) giving a true and fair view of the financial position of the Company as at 30 September 2015 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date;

(ii) complying with Accounting Standards in Australia, as set out in Note 1 to the financial statements, and the *Corporations Regulations 2001* (Cth); and

(iii) complying with the requirements of the *Life Insurance Act 1995 (Cth)*; and

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

This declaration is made and signed in Sydney in accordance with a resolution of Directors this 6th day of November 2015.

Director

Director

MLC Limited

Appointed actuary's Statement

In accordance with the requirements of the *Life Insurance Act 1995*, I state that, in my opinion:

(a) the value of the policy liabilities of the Company and the capital requirements of the Company have been determined using methods and assumptions consistent with the actuarial and prudential standards;

(b) the allocation and distribution of the profits of the Statutory Funds of the Company have been made in accordance with Divisions 5 and 6 of Part 4 of the Life Act and the Constitution of the Company; and

(c) proper records have been kept by the Company from which its policy liabilities and capital requirements have been able to be properly determined.

This statement is made and signed in Sydney on the 6^{th} day of November 2015.

Appointed Actuary
D Robinson

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Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent auditor's report to the members of MLC Limited

We have audited the accompanying financial report of MLC Limited (the "Company"), which comprises the balance sheet as at 30 September 2015, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

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Opinion

In our opinion:

a. the financial report of MLC Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 30 September 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Ernst & Young.

Ernst & Young

Graeme McKenzie
Partner
Sydney
6 November 2015