

MLC Limited
ABN 90 000 000 402
Annual Financial Report 2016

MLC Limited

Table of contents

	Page
Directors' report	1
Auditor's independence declaration	5
Financial Statements	
Statement of comprehensive income	6
Balance sheet	7
Cash flow statement	8
Statement of changes in equity	9
Notes to the financial statements	
1 Significant accounting policies	10
2 Revenue	22
3 Expenses	23
4 Income tax	24
5 Dividends paid and proposed	25
6 Financial assets	26
7 Intangible assets	27
8 Payables	27
9 Provisions	28
10 Policy liabilities	29
11 Policyholder retained profits	37
12 Financial liabilities	37
13 Contributed equity	37
14 Capital reserve	38
15 Retained profits	38
16 Notes to the Cash flow statement	39
17 Interests in controlled and other entities	40
18 Commitments, contingencies and fiduciary activities	40
19 Risk management and financial instruments information	41
20 Other life insurance disclosures	49
21 Related party disclosures	52
22 Remuneration of external auditor	54
23 Significant transactions	55
24 Subsequent events	56
Directors' declaration	58
Appointed Actuary's statement	59
Independent auditor's report	60

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 2016 and the auditor's report thereon.

Certain definitions

The Company's financial year ends on 30 September. The financial year ended 30 September 2016 is referred to as 2016 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) Corporations (Rounding in Financial/Directors Reports) instrument 2016/191 dated 24 March 2016 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 Birkenleigh	27 February 2012	
A C Gale	3 December 2014	3 October 2016
P Gupta	1 September 2012	3 October 2016
D M Hackett	29 January 2014	
A Hagger	22 May 2013	
E Rubin	22 May 2013	3 October 2016
P Grey	3 October 2016	
A Cornish	3 October 2016	
H Nishi	3 October 2016	
T Nakashima	3 October 2016	

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.

On 28 October 2015, Nippon Life Insurance Company (Nippon Life) announced its intention to purchase 80% of the shares of MLC Limited. The purchase was completed on 3 October 2016. The sale of National Australia Bank Limited's (NAB) share resulted in the ultimate parent entity ceasing to be NAB and becoming Nippon Life. On 1 July 2016, approximately \$70 billion of life investment policies were redeemed from the Company and in-specie transferred to the MLC Super Fund. This was a condition precedent to the sale of 80% of the Company to Nippon Life.

There were no other 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 Ground Floor, 105-153 Miller St, North Sydney, NSW 2060. The immediate parent entity was MLC Holdings Limited until control was passed to Nippon Life following execution of the share sale agreement.

Review and results of operations

The profit after income tax for the period ended 30 September 2016 is \$265 million (2015: \$398 million). The profit was attained in the normal course of operations of the Company.

MLC Limited

Directors' report (continued)

Dividends

The Company paid the following dividends during the financial year:

- Interim ordinary dividend for the year ended 30 September 2015 of 10 cents per fully paid share totalling \$118.4 million paid in December 2015 following approval from the Australia Prudential Regulation Authority (APRA).
- Final ordinary dividend for the year ended 30 September 2015 of 13 cents per fully paid share totalling \$239.8 million. Payment was in two tranches, December 2015 and June 2016, following approval from APRA.
- Interim ordinary dividend for the year ended 30 September 2016 of 12 cents per fully paid share totalling \$243.8 million paid on 30 September 2016.

As a member of the NAB tax-consolidated group up to the date of NAB's 80% interest being sold to Nippon Life, dividends paid by the Company were not franked. All franking credits were recognised in the consolidated financial statements of NAB. Accordingly, franking credits are not disclosed in the Company's financial statements.

State of affairs

On 15 September 2016, NAB executed the share sale agreement to sell 80% of the Company to Nippon Life, resulting in a loss of control and deconsolidation of the Company from the NAB Group. The NAB Group retains 20% investment in the Company and has entered into a 20 year distribution agreement with the Company to provide life insurance products through its owned and aligned distribution networks. The NAB Group retains the MLC brand, although it has been licensed for use by the Company for 10 years.

To create a stand-alone Life Insurance business, the Company undertook the following transactions:

- The Company unwound its commission funding arrangement with a related party, National Wealth Management Services Limited (NWMS), in May 2016. This required a one-off commission payment of \$232 million from the Company to NWMS, which was funded by issuance of \$232 million of ordinary shares by the Company to its immediate parent entity, MLC Holdings Limited. There was a corresponding decrease in the Company's policy liabilities, as future cash outflows were reduced by the payment. Overall, the transaction had no impact to the Company's current year's results and income tax expense.
- \$4.7 billion of investment policy liabilities held by external superannuation funds were redeemed from Statutory Funds 2 and 4 in May 2016. The Company's fee revenue is reduced in the current year and in future years due to this transaction compared to prior periods.
- \$70 billion of investment policy liabilities held by The Universal Superannuation Scheme and Plum Superannuation Fund were redeemed from Statutory Funds 1, 2 and 4 on 1 July 2016 and transferred to the MLC Super Fund. The transfer was done through the Successor Fund Merger (SFM) provisions available within Superannuation legislation, which provides Capital Gains Rollover relief to the superannuation fund members. The Company's fee revenue is reduced in the current year and in future years due to this transaction compared to prior periods.
- Disposal of the Company's wholly owned subsidiaries to the NAB Group in August 2016 at the carrying value of the investments. The entities were MLC Properties Pty Ltd, MLC Nominees Pty Ltd and Plum Financial Services Limited. The disposal value was based on the carrying value and the proceeds was a return of \$108 million in capital.
- The Company has entered into a Shareholders Deed between MLC, NAB and Nippon Life which governs the relationship between Nippon Life and NAB, as shareholders of MLC.

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.

MLC Limited

Directors' report (continued)

Events subsequent to end of the reporting period

On 3 October 2016, NAB completed the sale of 80% of the Company's ordinary shares to Nippon Life.

The Company has entered into legally binding agreements for leases for premises in Melbourne and Sydney. In July 2016 the Company entered into a legally binding agreement to enter into a lease for its operating premises in Melbourne. On 17 October, the lease for the North Sydney premises was executed. The future commitments associated with these operating leases have been included in the commitments at note 18. As at the date of signing these financial statements, the lease agreement for Melbourne had not been executed.

Related party transactions subsequent to year end

The Company exited NAB's tax consolidated group on 3 October 2016. In accordance with NAB's Tax Sharing Deed, the Company calculated a reasonable estimate of its allocation of the NAB's group tax liability up to the exit of the tax consolidated group under clause 12.2 of the National Tax Sharing Deed.

The Company's final tax payment represented an amount of \$102,086,432, being a tax exit payment of \$7,058,977 and a pay-as-you-go instalment of \$95,027,455, funded appropriately by MLC's superannuation, investments and insurance businesses. This was settled prior to 30 September 2016.

MLC Limited has entered into a number of contractual arrangements with NAB or a controlled entity of NAB, as part of the life insurance strategic partnership entered into by NAB and Nippon Life. The agreements did not have any material impact on the 30 September 2016 reported results.

Distribution Agreement

A 20 year distribution agreement has been entered into by NAB and MLC Limited. Both parties have agreed that NAB will distribute life insurance products to its customers and that MLC will manufacture and issue life insurance products to NAB's customers. NAB will be remunerated on an arms length, commercially negotiated basis.

Transitional Services Agreement

An agreement between NAB and MLC Limited that covers the provision of specified support services by the NAB Group (principally through a controlled entity National Wealth Management Services Limited) until such time that MLC acquires these services. These services include payroll, financial and investment reporting, infrastructure services, major systems and contact centres. NAB will be remunerated on an arms length, commercially negotiated basis.

Retirement Solutions Agreement

The NAB Group, through MLC Investments Limited, has agreed to deliver certain services in relation to the administration and management of Protected Income for Life (PIL) along with the transfer of specified resourcing capabilities to develop new longevity products. Following the settlement of outstanding intercompany balances prior to 30 September 2016, the parties have agreed that MLC will solely bear the investment risk in on the PIL product and Statutory Fund 6 on a prospective basis.

IT Services Agreement

MLC Limited has agreed to provide NAB with technology services (principally IT personnel) and tax services referable to the 30 September 2016 financial year, until such services are no longer required. NAB will be charged for such services on an arms length basis.

Financial Services Agreement – Umbrella Agreement

NAB (or applicable controlled entities of NAB) have entered into this and certain linked agreements, under which a relevant NAB group party provides to MLC Limited (on commercial terms including fees that have been negotiated at arm's length) certain financial services on an exclusive basis, including custody, transactional banking facilities, unit pricing, fixed income, commodity and currency services and on a non-exclusive basis, including investment portfolio management.

Portfolio management deed – MLC and Jana Corporate Investment Services Ltd

MLC has appointed JCIS to perform Portfolio Management Services with effect from 3 October 2016 to provide input to assist MLC with setting investment objectives and strategies, act as MLC's agent for making and implementing decisions and to provide specialist manager research, monitoring and termination services. MLC will be charged for such services on an arms length basis.

MLC Limited

Directors' report (continued)

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.

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 had deeds of indemnity in favour of each Director of the Company prior to 3 October 2016. New deeds of indemnity have been executed on 3 October 2016. The Company has not provided an indemnity to the auditor of the Company.

(ii) Insurance premiums

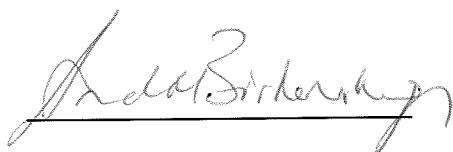
Premiums were paid by a related entity in respect of contracts insuring Directors and officers of the Company for liability and legal expenses for the current financial year. Since the financial year end, the Company has entered into new insurance arrangements and is paying the premiums in respect of such insurance contracts. 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 5.

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



Director

Sydney
4 November 2016



Director

Sydney
4 November 2016



Ernst & Young
200 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

As lead auditor for the audit of MLC Limited for the financial year ended 30 September 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

David Jewell
Partner
9 November 2016

MLC Limited
Financial statements for the period ended 30 September 2016
Statement of comprehensive income

	Note	2016 \$m	2015 \$m
Premium and related revenue	2	1,539	1,660
Fee revenue	2	434	600
Investment revenue	2	3,252	4,564
Other operating revenue	2	27	25
Total revenue		5,252	6,849
Claims expense	3	(791)	(823)
Change in life insurance contract policy liabilities	10	78	(246)
Change in life investment contract policy liabilities	10	(2,909)	(4,198)
Change in liabilities ceded under reinsurance	10	1	(49)
Change in policyholder retained profits	11	(3)	(1)
Operating expenses	3	(1,175)	(1,043)
Impairment of intangible assets	7	(14)	-
Total expenses		(4,813)	(6,360)
Profit before income tax		439	489
Income tax (expense)/refund – policyholder		(31)	54
Income tax expense – shareholder		(143)	(145)
Total income tax expense	4	(174)	(91)
Profit after tax attributable to owners of the Company		265	398
Other comprehensive income for the period net of tax		-	-
Total comprehensive income for the period attributable to owners of the Company		265	398

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

MLC Limited**Financial statements for the period ended 30 September 2016****Balance sheet**

	Note	2016 \$m	2015 \$m
Assets			
Cash and cash equivalents	16(a)	1,142	2,497
Financial assets at fair value through profit or loss	6(a)	4,328	76,441
Loans and other receivables	6(b)	337	492
Investments in controlled entities	17	-	108
Intangible assets	7	-	17
Life insurance policy liabilities ceded under reinsurance	10	305	304
Deferred tax assets	4	18	49
Total assets		6,130	79,908
Liabilities			
Payables	8	284	371
Provisions	9	34	141
Life insurance contract policy liabilities	10	2,782	2,860
Life investment contract policy liabilities	10	855	73,580
Policyholder retained profits	11	109	106
Financial liabilities	12	-	14
Deferred tax liabilities	4	93	650
Total liabilities		4,157	77,722
Net assets		1,973	2,186
Equity			
Contributed equity	13	2,046	1,861
Capital Reserve	14	-	61
Retained profits	15	(73)	264
Total equity		1,973	2,186

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

MLC Limited
Financial statements for the period ended 30 September 2016
Cash flow statement

	Note	2016 \$m	2015 \$m
Cash flows from operating activities			
Premiums received relating to life insurance contracts		1,872	1,778
Premiums received relating to life investment contracts		5,226	9,445
Payments in respect of life insurance contracts		(1,096)	(991)
Payments in respect of life investment contracts		(10,792)	(8,666)
Interest received		877	679
Dividends and distributions received		918	973
Net cash paid in respect of reinsurance transactions		(43)	(3)
Other investment revenue in the course of operations		461	1,010
Income tax paid		(243)	(70)
Tax exit payment		(102)	-
Fees and commissions paid		(680)	(519)
Other cash payments in the course of operations		(825)	(463)
Net (payment)/proceeds from sale of investments backing life insurance policies		(230)	782
Net proceeds/(payment) arising from sale and purchase of investments backing life investment policies		3,904	(2,936)
Net cash from operating activities	16(b)	(753)	1,019
Cash flows used in investing activities			
Net movements in loans to commonly controlled entities		-	-
Net cash used in investing activities		-	-
Cash flows used in financing activities			
Return of capital	13	-	(496)
Dividends paid	5	(602)	(272)
Net cash used in financing activities		(602)	(768)
Net increase in cash and cash equivalents		(1,355)	251
Cash and cash equivalents at the beginning of the period		2,497	2,246
Cash and cash equivalents at the end of the period	16(a)	1,142	2,497

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

MLC Limited
Financial statements for the period ended 30 September 2016
Statement of changes in equity

	Contributed equity ⁽¹⁾	Capital Reserves ⁽²⁾	Retained profits ⁽³⁾	Total Equity
	\$m	\$m	\$m	\$m
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
<i>Transactions with owners, recorded directly in equity:</i>	-	-	-	-
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
Year to 30 September 2016				
At 1 October 2015	1,861	61	264	2,186
Net profit for the year	-	-	265	265
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	265	265
<i>Transactions with owners, recorded directly in equity:</i>	-	-	-	-
Issue of shares	232	-	-	232
Return of capital	(108)	-	-	(108)
Dividends paid	-	-	(602)	(602)
Transfer of reserve	61	(61)	-	-
Total transactions with owners	185	(61)	(602)	(478)
Balance at 30 September 2016	2,046	-	(73)	1,973

⁽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 to the Financial Statements.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies

The financial report for MLC Limited (the Company) for the year ended 30 September 2016 was authorised for issue on 4 November 2016 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 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 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(w) – *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

The Company has adopted the following new and amended standards and interpretations as of 1 October 2015 with no material impact:

- AASB 2013 – 9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'
- AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'
- AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiatives: Amendments to AASB 101'
- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'
- AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

(ii) 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:

'AASB 16 Leases' amends the accounting for leases. The amendment removes the distinction between operating and finance leases. Lessees will be required to bring all leases on to the statement of financial position. Lessor accounting remains largely unchanged. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

The Company is currently assessing the impact of this new standard but does not expect any material impacts as a result of complying with the new requirements. Early adoption is currently not anticipated.

'AASB 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.

AASB 2016-1 'Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses' amends AASB 112 Income Taxes (July 2014) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets on realised losses on debt instruments measured at fair value. The impact of this amendment is still being assessed and is not applicable to the Company until 1 October 2018.

AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107' amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The impact of this amendment 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 Corporations (Rounding in Financial/Directors Reports) instrument 2016/191 dated 24 March 2016, 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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

(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.

(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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

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.

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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

(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:

(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% (2015: 15%);
- annuity policies – 0% (2015: 0%);
- allocated pension business – 0% (2015: 0%) or
- other policies – 30% (2015: 30%).

The Shareholder's Fund and fee income is taxed at the company rate of 30% (2015: 30%).

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

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.

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, which previously included the Company, formed a tax-consolidated group with effect from 1 October 2002 and were taxed as a single entity from that date. The head entity of the tax-consolidated group is NAB.

Throughout the financial year the Company formed part of the NAB income tax and GST consolidated group (the NTCG). It had entered into a Tax Funding Agreement (TFA), Tax Sharing Deed (TSD) and Indirect Tax Sharing Deed (ITSD) (referred collectively as the Funding Agreements) that set out the Company's funding obligations within the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities were payable in accordance with the Funding Agreements 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 were assumed by the head entity in the tax-consolidated group and were recognised as amounts payable to (or receivable from) other entities in the tax-consolidated group, including the Company, under the TFA.

On 3 October 2016, MLC Limited exited the NTCG. As required by tax legislation, the Company had settled its tax obligations with NAB prior to 30 September 2016 by making a final tax payment to NAB pursuant to the TSD and the ITSD.

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).

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

(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.

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 3 to 15 years. Where the useful life of an intangible asset is reduced, accelerated amortisation is recognised in the statement of comprehensive income in the period in which the change occurs. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

(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.

(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 parties are interest free and repayable at call.

(q) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

(r) 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 materially 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.

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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

- (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.

(s) 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.

(t) 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.

(u) Employee benefits

(i) Annual leave, long service leave and other employee benefits

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of employees rendering service are measured at their nominal amounts using remuneration rates that the Company expects to pay when the liabilities are settled.

Employee entitlements to long service leave are accrued using an actuarial calculation including assumptions regarding staff departures, leave utilisation and future salary increases.

A liability is recognised for the amount expected to be paid under short-term cash bonuses when the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognized as an expense if the Company has made an offer of voluntary redundancy, it's probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(v) 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.

(ii) A Class Share

The A Class Share is a redeemable non-voting preference share which only carries specific dividend rights, has no liquidation preference or conversion right to Ordinary Shares or any other class of shares. The dividend is payable only once and only if certain conditions are met. After the dividend to the holder of the A Class Share becomes payable, the Company must not make any distributions to holders of any of its shares (excluding the A Class Share) unless and until the dividend to the holder of the A Class Share has been paid in full. Following the payment of the dividend, the Company must redeem the A Class Share for its par value within three months of dividend payment date.

(w) 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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

1 Significant accounting policies (continued)

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).

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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

2 Revenue

	2016	2015
	\$m	\$m
Premium and related revenue		
Total life insurance and investment contract premium received and receivable	6,899	10,622
Less: Amount recognised as a change in policy liabilities	(5,031)	(8,827)
Life insurance contract premium revenue	1,868	1,795
Less: Outwards reinsurance expense	(429)	(660)
Add: Reinsurance commissions received	100	525
	1,539	1,660
Fee revenue		
Investment management and origination fees	434	600
Investment revenue		
Dividends and distributions	939	1,623
Interest revenue	879	1,042
Other income from investments held at fair value through profit or loss		
Net realised gains	3,075	3,639
Net unrealised (losses)	(1,641)	(1,740)
	3,252	4,564
Other operating revenue		
Other revenue	27	25

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

3 Expenses

	2016 \$m	2015 \$m
Claims expense		
Total life insurance and investment contract claims paid and payable	11,884	9,662
Less: Amount recognised as a change in policy liabilities	(10,792)	(8,669)
Life insurance contract claims expense	1,092	993
Less: Reinsurance recoveries	(301)	(170)
	791	823
Operating expenses		
Policy acquisition expenses - life insurance contracts		
Commissions	72	60
Other	73	59
Policy acquisition expenses - life investment contracts		
Commissions	145	199
Other	13	14
Policy maintenance expenses - life insurance contracts		
Commissions	415	191
Other	230	192
Policy maintenance expenses - life investment contracts		
Commissions	48	69
Other	136	176
Investment management expenses	13	25
Other operating expenses	30	58
	1,175	1,043
Analysis of expenses by nature		
Amortisation expense	3	26
Commissions	680	519
Investment management expenses	13	25
Other operating expenses	479	473
	1,175	1,043

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

4 Income tax

(a) Income tax expense:

Current tax

Current income tax charge

Amounts in relation to prior years

Deferred tax - temporary differences

Total income tax expense

2016 \$m	2015 \$m
259	298
(3)	(3)
(82)	(204)
174	91

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

	2016 \$m	2015 \$m
Profit before income tax	439	489
Prima facie income tax expense at 30% (2015: 30%)	132	147
Add/(deduct) tax effect of amounts not deductible/(assessable)		
Amounts in relation to prior years	3	(3)
Tax expense attributable to policyholders	31	(38)
Rebate of tax on dividend	-	(9)
Other	8	(6)
Total income tax expense	174	91

(c) Deferred tax

Deferred tax assets

Provisions

18	49
18	49

Deferred tax assets of \$0.8 million (2015: \$91 million) 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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

4 Income tax (continued)

	2016 \$m	2015 \$m
Deferred tax liabilities		
Unrealised investment gains	93	650
	93	650

The Company transferred \$457m of deferred tax liabilities to the MLC Super Fund on 1 July 2016 (2015: \$nil).

(d) Tax consolidation

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

	2016 \$m	2015 \$m
Total decrease in intercompany assets of the Company	(128)	(226)

The Company exited NAB's tax consolidated group on 3 October 2016. In accordance with NAB's Tax Sharing Deed, The Company calculated a reasonable estimate of its allocation of the NAB's group tax liability under clause 12.2 of the National Tax Sharing Deed.

The Company's final tax payment represented an amount of \$102,086,433, being a tax exit payment of \$7,058,977 and a pay-as-you-go instalment of \$95,027,455, funded appropriately by MLC's superannuation, investments and insurance businesses. This was settled prior to 30 September 2016.

5 Dividends paid and proposed

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

	2016 \$m	2015 \$m
Dividends on ordinary shares:		
Interim dividend declared in respect of the year ended 30 September 2015: \$0.10 per share (2015: \$0.13 per share)	118	272
Final dividend declared in respect of the year ended 30 September 2015: \$0.13 per share (2015: nil per share)	240	-
Interim dividend declared in respect of the year ended 30 September 2016: \$0.12 per share (2015: nil per share)	244	-
Total dividends paid and proposed by the Company during the year	602	272

Australian franking credits

As a member of the NAB tax-consolidated group up to the date of NAB's 80% interest being sold to Nippon Life, dividends paid by the Company were not franked. All franking credits were recognised in the consolidated financial statements of NAB. Accordingly, franking credits are not disclosed in the Company's financial statements.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

6 Financial assets

	2016	2015
	\$m	\$m
(a) Financial assets at fair value through profit or loss		
Equity securities	1,805	47,394
Debt securities	2,406	25,100
Property securities	113	3,947
Derivatives	4	-
Total financial assets at fair value through profit or loss	4,328	76,441

Financial assets at fair value through profit or loss of \$1,006 million (2015: \$9,589 million) are expected to be recovered within 12 months.

As part of the successor fund merger of the majority of the Company's superannuation business to the MLC Super Fund, \$69,873m of financial assets were transferred to the MLC Super Fund.

	2016	2015
	\$m	\$m
(b) Loans and other receivables		
Investment income accrued and receivable	50	22
Outstanding premiums	115	120
Related party receivables:		
Ultimate parent entity - tax related	-	186
Other related parties	28	5
Unsettled investment transactions	-	10
Loans on policies	10	11
Reinsurance receivable	120	108
Other	14	30
Total loans and other receivables	337	492

Loans and other receivables of \$271 million (2015: \$413 million) are expected to be settled within 12 months.

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements

7 Intangible assets

	2016 \$m	2015 \$m
Intangible assets		
At cost	134	134
Deduct: accumulated amortisation and impairment	(134)	(117)
Total Intangible Assets	-	17

Reconciliation of movements in intangible assets

Balance at beginning of year	17	43
Amortisation	(3)	(26)
Impairment	(14)	-
Balance at the end of the year	-	17

Following the successor fund merger of the majority of the Company's superannuation business to the MLC Super Fund, the majority of revenues generated by the Intangible asset will be recognised outside of the Company. Any remaining value in use from the asset is expected to be immaterial, therefore the asset was considered to be fully impaired as at 30 September 2016..

8 Payables

	2016 \$m	2015 \$m
Related party payables		
Ultimate parent entity - tax related	-	59
Other related parties	-	4
Policy claims payable	118	122
Accrued expenses	90	119
Unsettled investment transactions	-	32
Trade and other creditors	76	35
Total payables	284	371

All payables are expected to be settled within 12 months (2015: all)

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements
9 Provisions

	2016 \$m	2015 \$m
Current		
Superannuation contributions tax	-	73
Short term incentive	14	-
Annual leave	5	-
Long service leave	6	-
Other	7	68
Non-Current		
Long service leave	2	-
Total provisions	34	141

Reconciliation of movements in provisions:

	Super Contribution Tax \$m	Short term incentive \$m	Annual leave \$m	Long service leave \$m	Other \$m	Total \$m
As at 1 October 2015	73	-	-	-	68	141
Arising during the year	202	14	5	8	5	234
Utilised / Reversed	(44)	-	-	-	(60)	(104)
Transfers to related entities	(31)	-	-	-	(4)	(35)
Transfers	1	-	-	-	(1)	-
Payments made	(201)	-	-	-	(1)	(202)
As at 30 September 2016	-	14	5	8	7	34

	Super Contribution Tax \$m	Short term incentive \$m	Annual leave \$m	Long service leave \$m	Other \$m	Total \$m
As at 1 October 2014	(4)	-	-	-	65	61
Arising during the year	249	-	-	-	41	290
Utilised / Reversed	(172)	-	-	-	(31)	(203)
Transfers to related entities	-	-	-	-	-	-
Payments made	-	-	-	-	(7)	(7)
As at 30 September 2015	73	-	-	-	68	141

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements
10 Policy liabilities

	2016	2015
	\$m	\$m
Life insurance contract liabilities		
Best estimate liabilities		
Value of future policy benefits	7,498	7,139
Value of future expenses	427	948
Future charges for acquisition costs	(23)	(25)
Value of future revenues	(7,698)	(7,719)
Total best estimate liabilities for life insurance contracts	204	343
Value of future profits		
Value of future policyholder bonuses	276	332
Value of future shareholder profit margins	1,997	1,881
Total value of future profits	2,273	2,213
Policy liabilities for life insurance contracts net of reinsurance	2,477	2,556
Policy liabilities ceded under reinsurance	305	304
Policy liabilities for life insurance contracts	2,782	2,860
Life investment contract liabilities		
Policy liabilities for life investment contracts	855	73,580
Total policy liabilities	3,637	76,440

In respect of life insurance contracts with a discretionary participating feature, the total value of declared bonuses is \$30 million (2015: \$38 million). In respect of life insurance contracts with a discretionary participating feature, there are \$1,129 million (2015: \$1,250 million) of liabilities that relate to guarantees. In respect of life investment contracts with a non-participating feature, there are \$173 million (2015: \$181 million) of liabilities that relate to guarantees. In respect of investment contracts, there are \$123 million (2015: \$3,274 million) of policy liabilities subject to investment performance guarantees.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

10 Policy liabilities (continued)

Reconciliation of movements in policy liabilities

	2016 \$m	2015 \$m
Life insurance contract liabilities		
Balance at the beginning of the year	2,860	2,614
Increase/(Decrease) reflected in the Statement of comprehensive income	(78)	246
Balance at the end of the year	2,782	2,860
Life investment contract liabilities		
Balance at the beginning of the year	73,580	69,224
Increase reflected in the Statement of comprehensive income	2,909	4,198
Life investment contract liabilities redeemed under SFM	(69,873)	-
Premiums recognised in policy liabilities	5,031	8,827
Claims recognised in policy liabilities	(10,792)	(8,669)
Balance at the end of the year	855	73,580
Total policy liabilities at end of year	3,637	76,440
Life insurance policy liabilities ceded under reinsurance		
Balance at the beginning of the year	(304)	(353)
(Increase)/decrease in reinsurance assets reflected in the Statement of comprehensive income	(1)	49
Balance at the end of the year	(305)	(304)
Total policy liabilities at the end of the year net of reinsurance	3,332	76,136

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 \$894 million for the insurance business (2015: \$1,095 million) and \$112 million for the investments business (2015: \$8,494 million).

The effective date of the Financial Condition Report is 30 September 2016. 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).

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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						Shareholder Fund	Total
	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Fund No 6		
At 30 September 2016 (\$m)								
Net assets	1,855	19	16	6	48	8	21	1,973
Regulatory adjustments	(992)	-	-	-	40	-	(9)	(961)
Total capital base	863	19	16	6	88	8	12	1,012
comprising of:								
Common Equity Tier 1 Capital	863	19	16	6	88	8	12	1,012
Additional Tier 1 Capital	-	-	-	-	-	-	-	-
Tier 2 Capital	-	-	-	-	-	-	-	-
Prescribed capital amount	276	1	1	-	33	4	-	315
consisting of:								
Insurance Risk Charge	168	-	-	-	6	-	-	174
Asset Risk Charge	28	-	-	-	25	4	-	57
Asset Concentration Risk Charge	-	-	-	-	-	-	-	-
Operational Risk Charge	56	1	1	-	5	-	-	63
Aggregation benefit	(20)	-	-	-	(4)	-	-	(24)
Combined stress scenario adjustment	44	-	-	-	1	-	-	45
Capital Adequacy Multiple (times)	3.12	19.00	16.00	-	2.67	2	-	3.21

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements
10 Policy liabilities (continued)
(a) Details of the regulatory capital position of each Fund (continued)

	Statutory Funds						Shareholder Fund	Total
	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Fund No 6		
At 30 September 2015 (\$m)								
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

(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 (redeemed under SFM)	Accumulation	n/a
Fixed Rate Options (redeemed under SFM)	Accumulation	n/a
Investment account	Accumulation	n/a
National Credit Card Cover	Accumulation	n/a

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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. There is also an allowance for illiquidity in the discount rate to reflect the illiquid nature of the liabilities. 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	2016	2015
Traditional business – participating		
Ordinary ⁽¹⁾	2.9%	3.7%
Superannuation ⁽¹⁾	3.5%	4.5%
Term life and disability income (excluding claims in payment) insurance ⁽²⁾	2.4%	3.2%
Disability claims in payment ⁽²⁾	2.1%	2.8%
Annuity business ⁽²⁾	1.8%-2.3%	2.2%-2.9%

(1) After tax.

(2) Before tax

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase with inflation of 1.6% (2015: 2.1%) 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 1.5% (2015: 2.1%).

(v) Rates of taxation

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

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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: 215% 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 100%-150% of incidence and 20%-100% of termination rates of IAD 89-93 ⁽³⁾ Female: Rates similar to 65%-80% of incidence and 20%-100% 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	2016	2015
Traditional business - participating		
Ordinary	6%	6%
Superannuation	7%	7%
Term life insurance (Full;Partial) ⁽¹⁾	10-15%;0-6%	10-15%;1-6%
Disability insurance (Full;Partial) ⁽¹⁾	10-15%; 0-1%	10-15%;0-1%
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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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	
	2016	2015	2016	2015
Bonus rate on sum assured	0.1%	0.4%	0.3%	1.3%
Bonus rate on existing bonuses	0.1%	0.4%	0.3%	1.3%

(c) Effects of changes in actuarial assumptions from:

Assumption category	30 September 2015 to 30 September 2016		30 September 2014 to 30 September 2015	
	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	-	(52)	-	(35)
Market related changes to discount rates	(25)	77	(16)	90
Non-market related changes to discount rates	(84)	-	-	-
Mortality and morbidity	161	-	250	(120)
Lapse rates	(133)	(6)	(498)	28
Maintenance expenses	(72)	1	19	22
Other assumptions	14	(7)	137	6
Total	(139)	13	(108)	(9)

The numbers in the above table are net of reinsurance.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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.

		2016		2016	
		Gross (before reinsurance) Profit/ (loss) and share- holders equity \$m		Net (after reinsurance) Profit/ (loss) and share- holders equity \$m	
	Change in variable		Policy liabilities \$m		Policy liabilities \$m
Discount rate	1% increase in discount rate	(11)	(64)	32	(115)
Inflation rates	0.5% increase in inflation rate	(20)	58	27	(8)
Annuitant mortality	50% increase in the rate of mortality improvement	(8)	11	(4)	6
Mortality & Morbidity- Lump Sum ⁽¹⁾	10% increase in mortality & morbidity rates	-	1	(13)	19
Morbidity –Disability Income	10% increase in disability incidence rates	(24)	34	(19)	26
Morbidity –Disability Income	10% decrease in disability termination rates	(99)	141	(69)	99
Lapse rates	10% increase in lapse rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	(1)	1	(1)	1

(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.

		2015		2015	
		Gross (before reinsurance) Profit/ (loss) and share- holders equity \$m		Net (after reinsurance) Profit/ (loss) and share- holders equity \$m	
	Change in variable		Policy liabilities \$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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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

	2016 \$m	2015 \$m
Balance at the beginning of the year	106	105
Increase in policyholder retained profits recognised in Statement of comprehensive income	3	1
Balance at the end of the year	109	106

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

12 Financial liabilities

	2016 \$m	2015 \$m
Derivatives	-	14

13 Contributed equity

Issued and paid-up share capital

	2016 \$m	2015 \$m
1,970,122,033 (2015: 1,846,312,429) ordinary shares, fully paid	1,985	1,861
1 (2015: nil) A Class Share, fully paid	-	-
Capital reserve	61	-
Balance at the end of the year	2,046	1,861

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

13 Contributed equity (continued)

Ordinary shares

On 31 May 2016, the Company issued \$232 million of ordinary share (2015 capital return: \$496 million) as shown in the Statement of changes in equity.

On 22 August 2016, the Company executed a capital reduction of \$108 million of ordinary shares (2015: nil) 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.

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

A Class share

The Company issued one A Class Share for \$1 per share to MLC Holdings Limited on 30 September 2016. The A Class Share is a redeemable non-voting preference share which only carries specific dividend rights, has no liquidation preference or conversion right to Ordinary Shares or any other class of shares. The dividend is payable only once and only if certain conditions are met. Following the payment of the dividend, the Company may redeem the A Class Share.

14 Capital Reserve

Capital reserve

2016 \$m	2015 \$m
-	61

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

15 Retained profits

Balance at the beginning of the year

Net profit attributable to owners of the Company

Total available for appropriation

Dividends paid

Balance at the end of the year

2016 \$m	2015 \$m
264	138
265	398
529	536
(602)	(272)
(73)	264

MLC Limited**Financial Report for the period ended 30 September 2016****Notes to the financial statements****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:

	2016 \$m	2015 \$m
Cash at bank and cash equivalents	1,142	2,497

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

	2016 \$m	2015 \$m
Profit after tax	265	398
Add non-cash items:		
Amortisation	3	26
Impairment of Assets	14	-
Issue of shares	232	-
Changes in assets and liabilities:		
Decrease/(increase) in financial assets at fair value through profit and loss	2,240	(4,064)
Decrease in loans and other receivables	155	148
Decrease/(increase) in deferred tax assets	31	(12)
(Decrease)/increase in gross life investment contract policy liabilities	(2,852)	4,356
(Decrease)/increase in net life insurance policy liabilities	(78)	295
Increase in policyholder retained profits	3	1
Decrease in deferred tax liabilities	(557)	(192)
(Decrease)/increase in provisions and payables	(209)	63
Net cash from operating activities	(753)	1,019

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements

17 Interests in controlled and other entities

Interest in controlled entities

The following table presents the controlled entities of the Company as at 30 September 2016 and 30 September 2015:

Entity name	Principal place of business and country of incorporation	Ownership interest and proportion of voting rights	
		2016 %	2015 %
Plum Financial Services Limited	Australia	-	100
MLC Nominees Pty Limited	Australia	-	100
MLC Properties Pty Limited	Australia	-	100

As condition precedent to the sale of MLC Limited to Nippon Life, the Company transferred all its wholly owned subsidiaries to National Wealth Management Holdings Ltd in August 2016.

The Company controls a number of unit trusts through its Statutory Funds as part of the ongoing investment activities of the business. 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:

	2016 \$m	2015 \$m
Investment commitments	10	1,068

(b) Commitments

Operating Lease Commitments

The Company has entered into two non-cancellable operating leases for its office premises in Sydney and Melbourne for a lease term of between 3 – 7 years.

Future minimum lease payments less incentives in relation to non-cancellable operating leases as at 30 September are as follows:

	2016 \$m	2015 \$m
Within one year	4	-
Later than one year but no later than five years	15	-
More than five years	6	-
Total Commitments	25	-

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

18 Commitments, contingencies and fiduciary activities (continued)

(c) Contingencies

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 \$22m (2015: \$15m) at the reporting date.

(d) 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 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, Compliance and Audit 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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

19 Risk management and financial instruments information (continued)

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 outstanding transactions on a net basis.

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 2016, the gross derivative amount recorded in Financial Assets was \$4 million (2015: Financial Liabilities \$(14) million) which is made up of derivative assets of \$ 4 million (2015: derivative liabilities \$(18) million and derivative assets of \$4 million). These derivative liability amounts had \$nil associated pledged financial collateral (2015: \$0.4million of collateral pledged for derivative liabilities).

(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 seeks to 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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

19 Risk management and financial instruments information (continued)

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.

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	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
+ 100 basis points	30.3	10.1	30.3	10.1
- 100 basis points	34.4	(17.0)	34.4	(17.0)

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 a different directional impact on profit compared to prior year. This is due to a change in deferred acquisition cost (DAC) assumptions having an impact on the sensitivity of the DAC component of policy liabilities to interest rate movements. When interest rates increase by 100bps, DAC impact is \$28m (\$4m 2015), while for 100bps decrease in interest rate, DAC impact is \$38m (-\$10m 2015). This is due to the lower base interest rate as well as the different directional impacts of a change in rates on Stepped and Level Premium business.

(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	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
10% increase	2.9	10.8	2.9	10.8
10% decrease	(2.9)	(10.8)	(2.9)	(10.8)

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
10% increase in foreign currency rates	1.1	6.5	1.1	6.5
10% decrease in foreign currency rates	(1.1)	(6.5)	(1.1)	(6.5)

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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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 2016						
Financial assets - at fair value through profit or loss	2,195	-	-	1,465	668	4,328
Loans and other receivables	-	-	-	337	-	337
	2,195	-	-	1,802	668	4,665
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

(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 management 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.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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.

	0-3 months	3-12 months	1-5 years	Maturity > 5 years	Investment Linked	No specific maturity	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
30 September 2016							
Payables	284	-	-	-	-	-	284
Policy liabilities	3	8	19	4	643	2,960	3,637
Financial liabilities	-	-	-	-	-	-	-
	281	8	19	4	643	2,960	3,915
30 September 2015							
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

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 prudential capital requirements, as well as compliance with its internal capital buffers (target surplus) policies. This strategy is unchanged from prior year.

MLC Limited

Financial Report for the period ended 30 September 2016

Notes to the financial statements

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 value 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 2016				Fair value measurement as at 30 September 2015			
	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	-	1,771	34 ⁽¹⁾	1,805	204	43,807	3,383 ⁽¹⁾	47,394
Debt securities ⁽²⁾	868	1,538	-	2,406	610	24,490	-	25,100
Property securities	-	113	-	113	-	3,947	-	3,947
Derivatives	-	4	-	4	-	-	-	-
Total financial assets measured at fair value	868	3,426	34	4,328	814	72,244	3,383	76,441
Financial liabilities								
Derivatives	-	-	-	-	-	14	-	14
Life investment contract liabilities	-	855	-	855	-	73,580	-	73,580
Total financial liabilities measured at fair value	-	855	-	855	-	73,594	-	73,594

(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.

(2) In the current period, sovereign bonds held by managed investment schemes, previously classified as Level 1, have now been classified as Level 2. Accordingly, the prior year comparative amounts have been restated by \$4,165 million to reflect this classification.

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 2016	Year to September 2015
	Equity securities \$m	Equity securities \$m
Balance at the beginning of period	3,383	2,638
Total gains/(losses):		
Investment revenue	36	314
Purchases and issues	256	725
Sales and settlements (SFM)	(3,641)	(294)
Transfers out of Level 3	-	-
Balance at the end of period	34	3,383

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. As a part of the transition to new ownership of the Company, the holdings in these investments have been rationalised.

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.

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements
20 Other life insurance disclosures
(a) Sources of operating profit
Life insurance contracts

Emergence of shareholder planned margins	153	143
Experience loss	(34)	(16)
Effects of changes to assumptions	(13)	3
Reversal of capitalised losses/(losses recognised)	22	28
Profit after income tax - Life insurance contracts	128	158

Life investment contracts

Fees earned less expenses	109	181
Profit after income tax – life investment contracts	109	181

Other

Investment earnings on shareholder retained profits and capital	35	49
Profit/(loss) from Shareholder Fund	(7)	10
Profit/(loss) after income tax – Other	28	59

Profit after income tax
(b) Reconciliation to Life Act profit

Profit after income tax	265	398
Bonuses provided for or paid in the current year		
Interim and terminal bonus on claims paid	22	24
Declared bonus on in force policies	8	14
Decrease in unvested policyholder benefits	3	1
Life Act profit after income tax	298	437

(c) Reconciliation of Life Act retained earnings

Life Act retained earnings at the beginning of the year	370	243
Life Act profit after income tax	298	437
Dividend paid	(602)	(272)
Provision for bonuses to participating policyholders	(30)	(38)
Life Act retained earnings at the end of the year	36	370

Retained profits from prior year have been amended to reconcile to the sum of Company retained earnings and Policyholder retained earnings

MLC Limited
Financial Report for the period ended 30 September 2016
Notes to the financial statements
20 Other life insurance disclosures (continued)
(d) Statutory fund information
(i) Details of statutory funds

During the period 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

The Company ceased writing investment-linked superannuation business from 1 July 2016, when \$70bn of investment-linked life policies were redeemed from the Company as a condition precedent to the sale of NAB's 80% interest in the Company to Nippon Life.

(ii) Abbreviated Statement of comprehensive income at fund level and company level
30 September 2016

30 September 2019

	Statutory Funds						Shareholder	Total	
	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6	All funds	Fund	Company
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Premium revenue									
Life insurance contracts	1,514	-	-	-	25		1,539	-	1,539
Investment revenue	76	2,520	31	460	165	-	3,252	-	3,252
Fee and other operating revenue	-	349	6	106	-	-	461	-	461
Total revenue	1,590	2,869	37	566	190	-	5,252	-	5,252
Claims expense									
Life insurance contracts	647	-	-	-	144	-	791	-	791
Change in policy liabilities	(58)	2,374	23	498	(7)	-	2,830	-	2,830
Change in policyholder retained profits	-	-	-	-	3	-	3	-	3
Other operating expenses	779	307	3	81	17	-	1,187	2	1,189
Total expenses	1,368	2,681	26	579	157	-	4,811	2	4,813
Profit/(loss) before income tax	222	188	11	(13)	33	-	441	(2)	439
Income tax (expense)/benefit	(68)	(96)	(5)	37	(37)	-	(169)	(5)	(174)
Net profit/(loss) after income tax	154	92	6	24	(4)	-	272	(7)	265

MLC Limited
Financial Report for the year ended 30 September 2016
Notes to the financial statements
20 Other life insurance disclosures (continued)
30 September 2015

30 September 2015

	Statutory Funds						Shareholder	Total	
	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6	All funds	Fund	Company
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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

(iii) Abbreviated Balance sheet at fund level and company level
30 September 2016

30 September 2016	Statutory Funds							Shareholder	Total
	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6	All funds	Fund	Company
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Investment assets	1,627	320	348	-	2,012	1	4,308	20	4,328
Policy liabilities ceded	305	-	-	-	-	-	305	-	305
Other assets	1,403	4	8	6	46	9	1,476	21	1,497
Total assets	3,335	324	356	6	2,058	10	6,089	41	6,130
Policy liabilities									
Life insurance contracts	1,193	-	-	-	1,589	-	2,782	-	2,782
Life investment contracts	33	302	342	-	178	-	855	-	855
Other liabilities	254	3	(2)	-	243	2	500	20	520
Total liabilities	1,480	305	340	-	2,010	2	4,137	20	4,157
Net assets	1,855	19	16	6	48	8	1,952	21	1,973
Contributed equity	-	-	-	-	-	-	-	2,046	2,046
Capital transfer between funds	1,998	(254)	6	(62)	(14)	6	1,680	(1,680)	-
Capital reserve	-	-	-	-	-	-	-	-	-
Retained profits	(143)	273	10	68	62	2	272	(345)	(73)
Total equity	1,855	19	16	6	48	8	1,952	21	1,973
Transfer from/(to) funds	176	(395)	(1)	(92)	(27)	6	(333)	333	-

MLC Limited
Financial Report for the year ended 30 September 2016
Notes to the financial statements
20 Other life insurance disclosures (continued)
(iv) Abbreviated Balance sheet at fund level and company level (continued)

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
Transfers from/(to)									
funds	(570)	(48)	(5)	(20)	-	(2)	(645)	645	-

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

	2016 \$	2015 \$
Short term employee benefits	3,501,126	2,447,434
Post-employment benefits	91,850	92,022
Other long term benefits	37,144	36,396
Share based payment	1,738,286	742,278
Total	5,368,406	3,318,130

MLC Limited

Financial Report for the year ended 30 September 2016

Notes to the financial statements

21 Related party disclosures (continued)

Non-director related parties

On 15 September 2016, NAB executed the share sale agreement to sell 80% of the Company to Nippon Life, resulting in a loss of control and deconsolidation of the Company from the NAB Group. The NAB Group retains 20% investment in the Company and has entered into a 20 year distribution agreement with the Company to provide life insurance products through its owned and aligned distribution networks. The NAB Group retains the MLC brand, although it has been licensed for use by the Company for 10 years.

Transactions with related parties are generally on arm's length terms and conditions. Amounts receivable from and payable to related parties were interest free and unsecured until 22 September 2016. These are shown in Notes 6 and 8.

Management services

The Company had previously entered into an agreement with a related party, National Wealth Management Services Ltd (NWMS), for the provision of management, administration and related services. Management fees were recognised on an accruals basis in accordance with agreed terms and conditions.

Distribution allowance

The Company had previously entered into an agreement with a related party, GWM Adviser Services Limited, for the provision of distribution related services. The distribution allowance expense was recognised on an accruals basis in accordance with agreed terms and conditions.

Advisory services

The Company had previously entered into agreements with related parties, 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

During the period the Company paid 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 related party, MLC Investments Limited. Management fees are borne directly by the unit trusts and a rebate of management fees is received by the Company.

	2016 \$'000	2015 \$'000
The aggregate amounts paid to/(received from) related parties of the Company		
Ultimate parent entity		
NAB - commission services	744	(329)
Other related parties		
MLC Investments Limited - managed assets	(7,911)	(14,278)
GWM Adviser Services Limited - distribution allowance	63,764	76,198
JANA Corporate Investment Services Limited – advisory services	(6,347)	(10,458)
JANA Investment Advisors Pty Limited – advisory services	28,313	29,873
National Wealth Management Services Limited – management services	317,860	319,622
National Wealth Management Services Limited – commission	357,213	426,259
	753,636	826,887

MLC Limited

Financial Report for the year ended 30 September 2016

Notes to the financial statements

21 Related party disclosures (continued)

Non-director related parties

Interest offset arrangement

Under an interest offset arrangement provided by the Company's banks, during the period eligible bank accounts within the National Wealth Management Holdings Limited group of Companies (NWMH Group) were grouped for the purposes of calculating interest. This ensured that balances of overdraft facilities utilised could be 'offset' by other bank balances held within NWMH Group, and NWMH Group only receives/pays interest on the net cash balance. This offset arrangement ceased on 22 September 2016 prior to the sale of 80% of the Company to Nippon Life and therefore at 30 September 2016, none of the bank balances were part of the offset arrangement (2015: \$45 million).

Indemnities Received

The Company is indemnified by NAB and/or specified controlled entities of NAB for certain specified costs and exposures that may arise in respect of the Company's investment and administration business that have been the subject of the Successor Funds Merger. The liability and indemnity regimes cover a select number of private equity assets and 'bundled products' which contain a combination of investment saving and risk insurance benefits.

22 Remuneration of external auditor

Total amounts paid or due and payable to Ernst & Young Australia⁽¹⁾:

	2016 \$	2015 \$
Audit of the financial statements	942,371	1,142,280
Audit related fees		
Regulatory	69,525	67,500
Other	1,155,290	49,910
Total remuneration of Ernst & Young Australia	2,167,186	1,259,690

⁽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 statute 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. In 2016 these fees were primarily associated with assurance work associated with the segregation of assets between the MLC Super Fund and MLC Limited.

These fees were paid by a related party.

MLC Limited

Financial Report for the year ended 30 September 2016

Notes to the financial statements

23 Significant Transactions

To create a stand-alone Life Insurance business, the Company undertook the following transactions:

- The Company unwound its commission funding arrangement with related party, National Wealth Management Services Limited (NWMS), in May 2016. This required a one-off commission payment of \$232 million from the Company to NWMS, which was funded by issuance of \$232 million of ordinary shares by the Company to its immediate parent entity, MLC Holdings Limited. There was a corresponding decrease in the Company's policy liabilities, as future cash outflows were reduced by the payment. Overall, the transaction had no impact to the Company's current year's results and income tax expense.
- \$4.7 billion of investment policy liabilities held by external superannuation funds were redeemed from Statutory Funds 2 and 4 in May 2016. The Company's fee revenue is reduced in the current year and in future years due to this transaction compared to prior periods.
- \$70 billion of investment policy liabilities held by The Universal Superannuation Scheme and Plum Superannuation Fund were redeemed from Statutory Funds 1, 2 and 4 on 1 July 2016 and transferred to the MLC Super Fund. The transfer was done through the Successor Fund Merger (SFM) provisions available within Superannuation legislation, which provides Capital Gains Rollover relief to the superannuation fund members. The Company's fee revenue is reduced in the current year and in future years due to this transaction compared to prior periods.
- Disposal of the Company's wholly owned subsidiaries to the NAB Group in August 2016 at the carrying value of the investments. The entities were MLC Properties Pty Ltd, MLC Nominees Pty Ltd, Plum Financial Services Limited and PFS Nominees Ltd. The disposal value was based on the carrying value and the proceeds was a return of \$108 million in capital.
- The Company has entered into a Shareholders Deed between MLC, NAB and Nippon Life which governs the relationship between Nippon Life and NAB, as shareholders of MLC.

MLC Limited

Financial Report for the year ended 30 September 2016

Notes to the financial statements

24 Subsequent events

On 3 October 2016, NAB completed the sale of 80% of the Company's ordinary shares to Nippon Life.

The Company has entered into legally binding agreements for leases for premises in Melbourne and Sydney. In July 2016 the Company entered into a legally binding agreement to enter into a lease for its operating premises in Melbourne. On 17 October, the lease for the North Sydney premises was executed. The future commitments associated with these operating leases have been included in the commitments at note 18. As at the date of signing these financial statements, the lease agreement for Melbourne had not been executed.

Related party transactions subsequent to year end

The Company exited NAB's tax consolidated group on 3 October 2016. In accordance with NAB's Tax Sharing Deed, the Company calculated a reasonable estimate of its allocation of the NAB's group tax liability up to the exit of the tax consolidated group under clause 12.2 of the National Tax Sharing Deed.

The Company's final tax payment represented an amount of \$102,086,432, being a tax exit payment of \$7,058,977 and a pay-as-you-go instalment of \$95,027,455, funded appropriately by MLC's superannuation, investments and insurance businesses. This was settled prior to 30 September 2016.

MLC Limited has entered into a number of contractual arrangements with NAB or a controlled entity of NAB, as part of the life insurance strategic partnership entered into by NAB and Nippon Life. The agreements did not have any material impact on the 30 September 2016 reported results.

Distribution Agreement

A 20 year distribution agreement has been entered into by NAB and MLC Limited. Both parties have agreed that NAB will distribute life insurance products to its customers and that MLC will manufacture and issue life insurance products to NAB's customers. NAB will be remunerated on an arms length, commercially negotiated basis.

Transitional Services Agreement

An agreement between NAB and MLC Limited that covers the provision of specified support services by the NAB Group (principally through a controlled entity National Wealth Management Services Limited) until such time that MLC acquires these services. These services include payroll, financial and investment reporting, infrastructure services, major systems and contact centres. NAB will be remunerated on an arms length, commercially negotiated basis.

Retirement Solutions Agreement

The NAB Group, through MLC Investments Limited, has agreed to deliver certain services in relation to the administration and management of Protected Income for Life (PIL) along with the transfer of specified resourcing capabilities to develop new longevity products. Following the settlement of outstanding intercompany balances prior to 30 September 2016, the parties have agreed that MLC will solely bear the investment risk in on the PIL product and Statutory Fund 6 on a prospective basis.

IT Services Agreement

MLC Limited has agreed to provide NAB with technology services (principally IT personnel) and tax services referable to the 30 September 2016 financial year, until such services are no longer required. NAB will be charged for such services on an arms length basis.

Financial Services Agreement – Umbrella Agreement

NAB (or applicable controlled entities of NAB) have entered into this and certain linked agreements, under which a relevant NAB group party provides to MLC Limited (on commercial terms including fees that have been negotiated at arm's length) certain financial services on an exclusive basis, including custody, transactional banking facilities, unit pricing, fixed income, commodity and currency services and on a non-exclusive basis, including investment portfolio management.

MLC Limited

Financial Report for the year ended 30 September 2016

Notes to the financial statements

24 Subsequent events (continued)

Portfolio management deed – MLC and Jana Corporate Investment Services Ltd

MLC has appointed JCIS to perform Portfolio Management Services with effect from 3 October 2016 to provide input to assist MLC with setting investment objectives and strategies, act as MLC's agent for making and implementing decisions and to provide specialist manager research, monitoring and termination services. MLC will be charged for such services on an arms length basis.

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

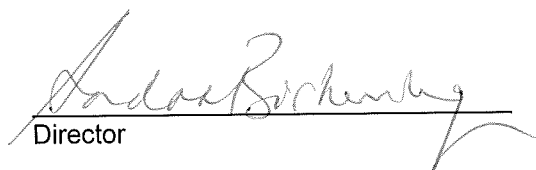
In the opinion of the Directors of MLC Limited:

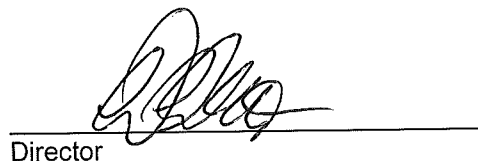
(a) the financial statements and notes, are in accordance with the *Corporations Act 2001* (Cth), including:

- (i) giving a true and fair view of the financial position of the Company as at 30 September 2016 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 4th day of November 2016.


Director


Director

MLC Limited

Appointed actuary's Statement

In accordance with the requirements of the *Life Insurance Act 1995* (Cth), 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 4th day of November 2016.



Appointed Actuary
D Robinson

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 2016, 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

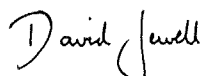
In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration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

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 2016 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



David Jewell
Partner
Sydney
9 November 2016