MLC Limited
ABN 90 000 000 402

Annual Financial Statements
30 September 2013

MLC Limited
Financial statements for the year ended 30 September 2013
Table of contents

MLC Limited
Financial statements for the year ended 30 September 2013
Directors' report

The Directors present their report together with the general purpose financial statements of MLC Limited ("the Company") for the year ended 30 September 2013 and the auditor's report thereon.

Directors

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

Director	Appointed	Resigned
S C Birkensleigh	27 February 2012	
P Coad	22 August 2013	
I K Crow	29 November 2006	16 November 2012
J G Duffield	24 August 2011	
P Gupta	1 September 2012	
A Hagger	22 May 2013	
A W Rothery	14 April 2009	
E Rubin	22 May 2013	
M F Snowden	25 August 2009	
G J Symons	14 April 2009	
G A Tomlinson	30 June 2000	
S J Tucker	30 July 2003	25 March 2013
W A H Webster	6 May 1999	16 November 2012
D West	25 August 2011	

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

Principal activities

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

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

Corporate information

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

Review and results of operations

The profit after income tax for the year ended 30 September 2013 is $243 million (2012: $296 million). The profit was attained in the normal course of operations of the Company.

Dividends

Dividends paid or proposed by the Company since the end of the previous financial year were $355 million paid and $360 million proposed (2012: $424 million paid and $311 million proposed).

State of affairs

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

Environmental regulation

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

Events subsequent to end of the reporting period

No 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

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

Insurance premiums
During the financial year a related entity paid premiums in respect of contracts insuring Directors and officers for liability and legal expenses for the year ended 30 September 2013. Since the financial year end, a related entity has paid or agreed to pay, premiums in respect of such insurance contracts for the year ending on 30 September 2014. 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 made to the Directors of MLC Limited

We have obtained an independence declaration from our auditor, Ernst & Young, which is set out on the following page and forms part of the Directors' report for the year ended 30 September 2013.

Rounding

The Company is of a kind referred to in ASIC Class order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and Directors' report have been rounded to the nearest million dollars, unless otherwise stated.

Directors' report

This report is made and signed in Sydney in accordance with a resolution of Directors this 8th day of November 2013.

Director

Director

Building a better working world

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

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

Auditor's Independence Declaration to the Directors of MLC Limited

In relation to our audit of the financial report of MLC Limited for the financial year ended 30 September 2013 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any other applicable code of professional conduct.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
8 November 2013

MLC Limited
Financial statements for the year ended 30 September 2013
Statement of comprehensive income

	Note	2013 $m	2012 $m
Premium and related revenue	2	1,479	1,359
Fee revenue	2	544	525
Investment revenue	2	9,807	6,371
Other operating revenue	2	16	12
Total revenue		11,846	8,267
Claims expense	3	(909)	(785)
Change in life insurance contract policy liabilities	8	(152)	(264)
Change in life investment contract policy liabilities	8	(9,002)	(5,610)
Change in liabilities ceded under reinsurance	8	56	17
Change in policyholder retained profits	10	6	32
Operating expenses	3	(983)	(973)
Total expenses		(10,984)	(7,583)
Profit before income tax		862	684
Income tax expense - policyholder		(519)	(218)
Income tax expense - shareholder		(100)	(170)
Total income tax expense	4	(619)	(388)
Profit after tax attributable to owners of the Company		243	296
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
Other comprehensive income for the period net of tax		-	-
Total comprehensive income for the period attributable to owners of the Company		243	296

MLC Limited
Financial statements for the year ended 30 September 2013
Statement of financial position

	Note	2013 $m	2012 $m
Assets			
Cash and cash equivalents	16(a)	2,124	2,304
Financial assets at fair value through profit or loss	6(a)	65,225	56,843
Loans and other receivables	6(b)	754	626
Life insurance policy liabilities ceded under reinsurance	8	324	268
Investments in controlled entities	17	108	108
Intangible assets	7	78	96
Deferred tax assets	4	10	17
Total assets		68,623	60,262
Liabilities			
Life insurance contract liabilities	8	2,477	2,325
Life investment contract liabilities	8	62,098	54,300
Policyholder retained profits	10	105	111
Payables	11	292	340
Provisions	9	97	204
Deferred tax liabilities	4	703	19
Total liabilities		65,772	57,299
Net assets		2,851	2,963
Equity			
Contributed equity	12	2,357	2,357
Capital reserve	13	61	61
Retained profits	14	433	545
Total equity		2,851	2,963

MLC Limited
Financial statements for the year ended 30 September 2013
Statement of cash flows

	Note	2013 $m	2012 $m
Cash flows from operating activities			
Premiums received relating to life insurance contracts		1,571	1,509
Premiums received relating to life investment contracts		7,653	5,282
Payments in respect of life insurance contracts		(1,022)	(928)
Payments in respect of life investment contracts		(8,278)	(7,306)
Interest received		695	833
Interest paid		(9)	-
Dividends and distributions received		778	946
Net cash received/(paid) in respect of reinsurance transactions		3	(74)
Other investment revenue in the course of operations		681	585
Income tax paid		(133)	(134)
Fees and commissions paid		(486)	(498)
Other cash payments in the course of operations		(565)	(619)
Net proceeds from sale of investments backing life insurance policies		453	240
Net (payment)/proceeds arising from sale and purchase of investments backing life investment policies		(1,166)	1,591
Net cash from operating activities	16(b)	175	1,427
Cash flows used in investing activities			
Net purchase of financial assets on termination of reinsurance		-	(1,660)
Net cash used in investing activities		-	(1,660)
Cash flows (used in)/from financing activities			
Proceeds from issue of shares		-	2,044
Share capital redemption		-	(221)
Dividends paid		(355)	(424)
Net cash (used in)/from financing activities		(355)	1,399
Net (decrease)/increase in cash and cash equivalents		(180)	1,166
Cash and cash equivalents at the beginning of the period		2,304	1,138
Cash and cash equivalents at the end of the period	16(a)	2,124	2,304

MLC Limited
Financial statements for the year ended 30 September 2013
Statement of changes in equity

	Note	Contributed Equity Ordinary $m	Contributed Equity Preference $m	Capital Reserve $m	Retained Earnings $m	Total $m
Balance at 30 September 2011		313	221	61	673	1,268
Shares issued (converted)		2,044	(221)			1,823
Net profit					296	296
Other comprehensive income					-	-
Dividends paid	5				(424)	(424)
Balance at 30 September 2012	12	2,357	-	61	545	2,963
Net profit					243	243
Other comprehensive income					-	-
Dividends paid	5				(355)	(355)
Balance at 30 September 2013	12	2,357	-	61	433	2,851

1 Significant accounting policies

Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and were authorised for issue in accordance with a resolution of directors on 8 November 2013.

MLC Limited ("the Company") has elected not to present consolidated financial statements as permitted by paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements*. Consolidated financial statements that comply with International Financial Reporting Standards are produced by the ultimate parent company, National Australia Bank Ltd, incorporated in Australia. These consolidated financial statements are publicly obtainable from Level 1, 800 Bourke Street, Docklands, Victoria 3008, Australia.

The financial statements have been prepared on the basis of historical cost, as modified by the application of fair value measurements as required by the relevant accounting standards.

The financial statements are presented in Australian dollars ($) and all values are rounded to the nearest million dollars ($m) unless otherwise stated.

Statement of compliance

The financial statements have been prepared in accordance with the requirements of Australian Accounting Standards and International Financial Reporting Standards ("IFRS").

The accounting policies adopted are consistent with those of the prior year, except for the adoption of:

- AASB 2013-2 "Amendments to AASB 1038 – Regulatory Capital", resulting in the disclosure of the regulatory capital position of each statutory fund and the company as a whole.
- AASB 2011-9 "Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income" which requires presentation of items of other comprehensive income that will be reclassified to profit or loss in the future separately from those that will never be reclassified to profit or loss.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not yet been adopted for the reporting period ended 30 September 2013. When applied in future periods, these recently issued or amended standards, except for those mentioned below, are not expected to have a material impact on the Company's results or financial position, however they may impact financial statement disclosures.

The potential impact of adopting the following new and amended Accounting Standards and Interpretations applicable and expected to be applied by the Company for the year commencing 1 October 2013 is as follows:

- AASB 12 "Disclosure of Interests in Other Entities" which requires disclosures to be made in respect of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about these entities.

Furthermore, AASB 9 "Financial Instruments" contains new requirements for classification and measurement of financial assets and liabilities, replacing the corresponding requirements in AASB 139 "Financial Instruments: Recognition and Measurement". It will introduce significant changes in the way that the Company accounts for financial instruments. The standard is effective for the Company in the year commencing 1 January 2015, however early adoption is permitted. The impact of AASB 9 on the Company's financial statements has not yet been assessed.

1 Significant accounting policies (continued)

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. 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. It is not anticipated that such differences would be material.

The carrying amounts of certain assets and liabilities are determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period include the actuarial assumptions made in determining the carrying amount of life insurance and life investment contracts and are detailed in Note 8.

Principles underlying conduct of life insurance business

The Company conducts life insurance business consisting of investment-linked and non investment-linked business.

Investment-linked business is 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.

Non investment-linked business is business 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.

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 Shareholder's Fund.

Monies held in the statutory funds are subject to distribution and transfer restrictions governed by the *Life Insurance Act* 1995 ("the Life Act").

Premium revenue

Life insurance contracts

For traditional business, all premiums are recognised as revenues as it is not possible to separate risk and investment components of premiums.

For other life insurance business, premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks, including protection business, are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to contributions, are recognised as an increase in policy liabilities.

1 Significant accounting policies (continued)

Premium revenue (continued)

Life investment contracts

For investment-linked business, premiums received which are akin to contributions are recognised as an increase in policy liabilities.

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 Statement of financial position.

Fees for management services rendered

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Revenue is recognised at the time that services are provided for fees that are charged to customers in connection with life investment contracts and other financial services contracts. In some cases services are provided at the inception of the contract while other services are performed over the life of the contract. The revenue that can be attributed to the services provided at inception is recognised at that time.

(ii) Fees for ongoing investment management services and for other services are charged on a regular basis and recognised as income at the time the service is provided.

Investment revenue

Dividends and distributions

Dividends and distribution income are brought to account on an accruals basis when the Company becomes entitled to receive the income.

Interest and other revenues

Revenue from interest and other revenue is recognised on an accrual basis.

Realised gains and losses and fair value movements

Net realised gains and losses and fair value movements are recognised in profit or loss in the period in which they occur.

Claims

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 are separated into their expense and liability components.

Life insurance contracts

Claims incurred that relate to providing services and bearing risks, including protection business, are treated as expenses. 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

For investment linked business, claims incurred which are akin to withdrawals are recognised as a reduction in policy liabilities.

1 Significant accounting policies (continued)

Basis of expense apportionment

All 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 Act* as follows:

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

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

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

Apportionment between policy acquisition, policy maintenance and investment management expenses has been made in accordance with the principles set out in the APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities.*

Management fees and distribution allowance

The Company has agreements with related entities, National Wealth Management Services Limited ("NWMS") and GWM Adviser Services Limited ("GWMAS"), for the provision of management and distribution related services respectively. The Company pays a management fee and distribution allowance to NWMS and GWMAS for these services.

Management fees and distribution allowance are recognised on an accruals basis in accordance with agreed terms and conditions.

Policy acquisition costs

The extent to which policy acquisition costs are deferred varies according to the classification of the contract acquired (either life insurance or life investment).

Life Insurance Contracts

The costs incurred in selling or generating new business include advisor fees, commission payments, application processing costs, relevant advertising costs and costs for promotion of products and related activities.

The impact of the new business selling costs not recovered by specific charges received from the policyholder at inception are effectively deferred, through the reduction of policy liabilities. Policy acquisition costs incurred are recorded in profit or loss and include the fixed and variable costs of acquiring new business. The Appointed Actuary assesses the value and future recovery of these costs in determining the policy liabilities.

The impact of these costs are deferred to the extent they are deemed recoverable from future premiums or policy charges (as appropriate for each policy class). Recoverable acquisition costs are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs from future premiums or policy charges.

In effect the acquisition costs are amortised over the period that they are expected to be recovered from future premiums or policy charges, the net profit impact of which is reflected in "Change in life insurance contract policy liabilities" in the Statement of comprehensive income.

Losses arising on acquisition are expensed in the period in which they occur.

Life Investment Contracts

The costs incurred in selling or generating new business include advisor fees and commission payments which are expensed in the year in which they are incurred.

1 Significant accounting policies (continued)

Income tax

Current income tax

Income tax expense or revenue is the tax payable/(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 taxes relating to items recognised directly in equity are recognised in equity and not recognised in profit or loss.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on different bases. 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%;
- annuity policies – 0%; or
- other policies – 30%.

The shareholder's fund and fee income is taxed at the company rate of 30%.

Deferred income tax

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Statement of financial position, and for unused tax losses. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially 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. A deferred tax asset or liability is not recognised if it arises from initial recognition of an asset or liability (in a transaction other than a business combination) that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Income tax (continued)

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses.

Deferred tax liabilities are not recognised for temporary differences arising from investments in controlled entities where the timing of the reversal of the temporary difference is controlled by NAB and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are not recognised for temporary differences arising from investments in controlled entities where it is probable that the difference will not reverse in the foreseeable future, and it is not probable that taxable profit will be available against which the temporary difference can be utilised.

Tax consolidation

NAB is the head entity in the tax consolidated group comprising NAB and all of its Australian wholly owned controlled entities.

The Company recognises its own deferred tax assets and deferred tax liabilities relating to temporary differences and income tax expense. Under the NAB Group's tax funding agreement, the Company recognises its current tax liability/(asset) as an intercompany payable/(receivable). Tax losses meeting recognition requirements as deferred tax assets are recognised as intercompany receivables.

1 Significant accounting policies (continued)

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 GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Foreign currency translation

The functional and presentation currency of the Company is Australian dollars ($).

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 recognised in the Statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Cash and cash equivalents

Cash and cash equivalents in the Statement of financial position comprises cash at bank and term deposits.

Financial assets

Financial assets held by the Company within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* include:

- Financial assets at fair value through profit or loss; and
- Loans and other receivables

The Company has no held to maturity or available for sale financial assets.

Financial assets are recorded initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date. Regular way sales or purchases are those under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Assets backing life insurance and life investment contracts

All financial assets within the Company's statutory funds are deemed to back life insurance business. Accordingly all financial assets in the statutory funds are designated as fair value through profit and loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the end of the reporting period. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

1 Significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

This category includes financial assets held for trading and items specifically designated at fair value through profit and loss, including financial assets in statutory funds as described above. All non-hedging derivatives are required to be classified as trading. After initial recognition, financial assets in this category are measured at fair value with gains or losses being recognised in profit or loss.

Fair value measurement

Fair value is determined as follows:
- Shares, fixed interest securities, options and units listed on stock exchanges are recorded at the quoted bid prices at balance date.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- Unlisted unit trusts are recorded at fund managers' valuation with reference to the estimated fair value of the net assets of the investment, the most recent published unit prices or on the advice of suitably qualified valuers.
- Other unlisted assets are determined by reference to valuation techniques, which may include using recent arm's length transactions, reference to other comparable assets, discounted cash flow analysis and option pricing models.
- Loans on policies, recorded in statutory funds, are recorded at account value, which approximates fair value.

Unobservable market data inputs

Unobservable market data inputs include items whose fair values are determined, in whole or in part, on a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data.

De-recognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Derivative financial instruments

Derivatives are classified as held-for-trading. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivatives are recognised in the Statement of financial position at fair value on trade date. Any gains or losses arising from changes in fair value of derivatives are taken directly to net profit or loss for the year. The carrying value of a derivative is remeasured at fair value throughout the life of the contract.

1 Significant accounting policies (continued)

Financial assets (continued)

Investments in controlled entities

Investments in controlled entities, other than those backing policyholder liabilities, are carried in the Company's financial statements at the lower of cost and recoverable amount. Assets backing policyholder liabilities are designated as fair value through profit and loss.

Intangible assets

Intangible assets acquired are recorded at cost, being the fair value of the consideration paid. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred.

Intangible assets that have limited useful lives are amortised using the straight line method over their estimated useful lives. Assets are amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Amortisation rates and methods are reviewed annually for appropriateness. Changes to amortisation rates are reflected prospectively in current and future periods only.

The book of advisers are amortised over 6 years. Customer contracts are amortised over 8 years.

Impairment of assets

Assets measured at fair value, where changes are reflected in the Statement of comprehensive income, are not subject to impairment testing. All other assets are subject to impairment testing.

Assets that have an indefinite useful life, including goodwill, are not subject to amortisation but are tested at least annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss, being the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or group of assets') fair value, including realisation costs, and its value in use.

Loans and 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.

An allowance for doubtful debts is made when there is objective evidence that the Company may not be able to collect the debts. Bad debts are written off when identified. Amounts receivable from related parties are interest free and repayable at call.

1 Significant accounting policies (continued)

Financial liabilities

Financial liabilities may be held at fair value through profit or loss or at amortised cost. When a financial liability is initially recognised, it is measured at fair value plus transaction costs, unless designated as fair value through profit or loss.

Items specifically designated at fair value through profit and loss are initially recognised at fair value with transaction costs being recognised immediately in the Statement of comprehensive income. Subsequently they are measured at fair value with any gains and losses recognised in profit or loss as they arise. Financial liabilities may be designated as fair value through profit or loss only if they meet certain criteria.

All other financial liabilities are measured at amortised cost using the effective interest method.

Derecognition of financial liabilities and of insurance, trade and other payables

Financial liabilities and insurance, trade and other payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

Life insurance contract liabilities

Life insurance contract liabilities are determined using the Margin on Services (MoS) methodology and in accordance with Actuarial Standards. Under MoS, the excess of premium received over claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder. The change in life insurance contract liabilities recognised in the Statement of comprehensive income reflects the planned release of this margin.

Life insurance contract liabilities are typically determined using a projection method, whereby estimates of policy cash flows are projected into the future and discounted back to their net present value using best estimate assumptions. When the benefits under a contract are linked to the supporting assets, the discount rate applied is based on the expected future earning rate of those assets. In other cases a discount rate based on an appropriate risk-free rate is used.

The assumptions used in the calculation of policy liabilities are reviewed at the end of each reporting period.

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.

Provisions

A provision is recognised when there is a legal or constructive obligation 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.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the end of the reporting period.

1 Significant accounting policies (continued)

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.

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

Contributed equity

Contributed equity is recognised as the fair value of consideration received. Where applicable, incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Revenue

	2013 $m	2012 $m
Premium and related revenue		
Total life insurance and investment contract premium received and receivable	8,685	6,261
Less: Amount recognised as a change in policy liabilities	(7,070)	(4,707)
Life insurance contract premium revenue	1,615	1,554
Less: Outwards reinsurance expense	(136)	(195)
	1,479	1,359
Fee revenue		
Investment management and origination fees	544	525
Investment revenue		
Dividends and distributions	1,190	1,250
Interest revenue	944	1,108
Other income from investments held at fair value through profit or loss		
Net realised losses	(883)	(1,818)
Net unrealised gains	8,556	5,831
	9,807	6,371
Other operating revenue		
Other revenue	16	12

3 Expenses

	2013 $m	2012 $m
Claims expense		
Total life insurance and investment contract claims paid and payable	9,309	8,234
Less: Amount recognised as a change in policy liabilities	(8,270)	(7,310)
Life insurance contract claims expense	1,039	924
Less: Reinsurance recoveries	(130)	(139)
	909	785
Operating expenses		
Policy acquisition expenses - life insurance contracts		
Commissions	72	79
Other	84	139
Policy acquisition expenses - life investment contracts		
Commissions	169	148
Other	29	39
Policy maintenance expenses - life insurance contracts		
Commissions	157	144
Other	171	105
Policy maintenance expenses - life investment contracts		
Commissions	88	127
Other	150	114
Investment management expenses	29	31
Other operating expenses	34	47
	983	973

4 Income tax

	2013 $m	2012 $m
(a) Income tax expense is made up of:		
Total income tax charged to income:		
Current tax		
Current income tax charge	(75)	(37)
Amounts in relation to prior years	1	2
Deferred tax - temporary differences	693	423
Total income tax charge to income	619	388

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

	2013 $m	2012 $m
Profit/(loss) before income tax	862	684
Prima facie income tax expense/(benefit) calculated at 30%	259	205
Adjustments for:		
Amounts in relation to prior years	1	2
Tax expense attributable to policyholders	364	153
Non-deductible acquisition expenses	-	33
Other	(5)	(5)
Total income tax expense	619	388

(c) Deferred tax

	2013 $m	2012 $m
Deferred tax assets		
Unrealised investment losses	-	15
Provisions	10	2
	10	17

Deferred tax assets of $149m (2012: $279m) 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 gains are available.

These deferred tax assets will only be obtained if:

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

4 Income tax (continued)

	2013 $m	2012 $m
Deferred tax liabilities		
Unrealised investment gains	688	-
Intangible assets	15	19
	703	19

Tax consolidation

NAB is the head entity in the tax consolidated group comprising NAB and all of its Australian wholly owned controlled entities. Entities in the tax consolidated group currently have Tax Funding Agreements in place which transfer current and deferred tax amounts to controlled entities via the intercompany account.

Each subsidiary in the tax consolidated group recognises its current tax liability/(asset) as an intercompany payable/(receivable) to the head entity. Realised tax losses meeting recognition requirements as deferred tax assets are recognised as intercompany receivables.

Under the Tax Funding Agreements, each entity determines its own tax liability on the basis that it is a stand alone entity but makes adjustments to exclude any receipt of dividends from group entities or intra-group transfer of assets. In respect of assessing the recoverability of tax losses/benefits a separate taxpayer within the group approach is adopted such that the loss/benefit may be recognised as a deferred tax asset to the extent that it is recoverable by the group and not just the stand-alone entity.

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

	2013 $m	2012 $m
Total increase in intercompany assets of the Company	122	219
Total decrease/(increase) in intercompany liabilities of the Company	83	(83)

5 Dividends paid and proposed

	2013 $m	2012 $m
Declared and paid during the year:		
Dividends on ordinary shares		
Final dividend for 2012: nil (2011: $1.55)	-	3
Dividends on non-redeemable preference shares		
Final dividend for 2012: $0.15 (2011: $1.55)	311	342
Interim dividend for 2013: $0.02 (2012: $0.04)	44	79
	355	424
Proposed final dividend		
On 8 November 2013 the Directors declared the following dividends (not recognised as a liability as at 30 September 2013):		
Dividends on ordinary shares		
Final dividend for 2013: $0.18 (2012: $0.15)	360	311
	360	311

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

6 Financial assets

	2013 $m	2012 $m
(a) Financial assets at fair value through profit or loss		
Equity securities		
Equity securities held directly	223	231
Equity securities held indirectly via unit trusts	42,728	36,691
	42,951	36,922
Interest bearing securities		
Interest bearing securities held directly	2,299	2,715
Interest bearing securities held indirectly via unit trusts	16,883	14,594
	19,182	17,309
Property securities		
Property securities held indirectly via unit trusts	2,994	2,601
Derivatives		
Derivatives held directly	98	11
Total financial assets at fair value through profit or loss	65,225	56,843

Financial assets at fair value through profit or loss of $10,157m (2012: $8,454m) are expected to be realised within 12 months.

	2013 $m	2012 $m
(b) Loans and other receivables		
Investment income accrued and receivable	33	37
Outstanding premiums	76	77
Related party receivables:		
Ultimate parent entity - tax related	496	374
Commonly controlled entities	3	1
Unsettled investment transactions	9	8
Loans on policies	16	17
Trade and other debtors	121	112
Total loans and other receivables	754	626

Loans and other receivables of $670m (2012: $543m) are expected to be settled within 12 months.

7 Intangible assets

Reconciliation of carrying amounts at the beginning and end of the period

	Book of advisers $m	Customer Contracts $m	Total $m
Year ended 30 September 2013			
At 1 October 2012 net of accumulated amortisation and impairment	34	62	96
Amortisation	(6)	(12)	(18)
At 30 September 2013 net of accumulated amortisation and impairment	28	50	78
At 30 September 2013			
Cost	34	100	134
Accumulated amortisation and impairment	(6)	(50)	(56)
Net carrying amount	28	50	78

The book of advisers has historically been classified as an intangible asset with an indefinite useful life, however from 1 October 2012 the useful life of this asset has been reassessed and it is now being amortised over a period of 6 years.

	Book of advisers $m	Customer Contracts $m	Total $m
Year ended 30 September 2012			
At 1 October 2011 net of accumulated amortisation and impairment	34	75	109
Amortisation	-	(13)	(13)
At 30 September 2012 net of accumulated amortisation and impairment	34	62	96
At 30 September 2012			
Cost	34	100	134
Accumulated amortisation and impairment	-	(38)	(38)
Net carrying amount	34	62	96

8 Policy liabilities

	2013 $m	2012 $m
Life insurance contracts		
Best estimate liabilities		
Value of future policy benefits	8,984	8,327
Value of future expenses	1,333	1,112
Future charges for acquisition costs	(24)	(25)
Value of future revenues	(10,223)	(9,921)
Total best estimate liabilities for life insurance contracts	70	(507)
Value of future profits		
Value of future policyholder bonuses	308	222
Value of future shareholder profit margins	1,775	2,342
Total value of future profits	2,083	2,564
Policy liabilities for life insurance contracts before reinsurance	2,153	2,057
Policy liabilities ceded under reinsurance	324	268
Policy liabilities for life insurance contracts	2,477	2,325
Life investment contracts		
Policy liabilities for life investment contracts	62,098	54,300
Total policy liabilities	64,575	56,625

The total value of declared bonuses is $46m (2012: $48m).

In respect of life insurance contracts with a discretionary participating feature, there are $1,584m (2012: $1,692m) of liabilities that relate to guaranteed elements. In respect of investment contracts, there are $3,882m (2012: $4,133m) of policy liabilities subject to investment performance guarantees.

8 Policy liabilities (continued)

Reconciliation of movements in policy liabilities

	2013 $m	2012 $m
Life insurance contract liabilities		
Life insurance contract liabilities at the beginning of the year	2,325	2,046
Increase reflected in the Statement of comprehensive income	152	264
Increase in gross liability due to external reinsurance settlement	-	15
Life insurance contract liabilities at the end of the year	2,477	2,325
Life investment contract liabilities		
Life investment contract liabilities at the beginning of the year	54,300	51,293
Increase reflected in the Statement of comprehensive income	9,002	5,610
Premiums recognised in policy liabilities	7,067	4,707
Claims recognised in policy liabilities	(8,271)	(7,310)
Life investment contract liabilities at the end of the year	62,098	54,300
Total policy liabilities at end of year	64,575	56,625
Liabilities ceded under reinsurance		
Liabilities ceded under reinsurance at the beginning of the year	(268)	385
Termination of reinsurance arrangements	-	(636)
Decrease in reinsurance assets reflected in the Statement of comprehensive income	(56)	(17)
Liabilities ceded under reinsurance at the end of the year	(324)	(268)
Total policy liabilities at the end of the year	64,251	56,357

For the majority of policy liabilities, there is no fixed settlement date. Based on the Company's assumptions as to likely withdrawal and claims patterns it is estimated that the approximate amount, that may be settled within 12 months is $1,094m for insurance business (2012: $940m) and $9,063m for investments business (2012: $7,514m).

The effective date of the Financial Condition Report is 30 September 2013. The actuarial report was prepared by the Appointed Actuary of the Australian Life Company, Jennifer Lang BEc, FIAA, FIA 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 Act* and with the standards set out by the Australian Prudential Regulation Authority ("APRA").

8 Policy liabilities (continued)

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

Under the *Life Act*, life insurers are required to hold reserves in excess of policy liabilities. These additional reserves are necessary to provide a cushion against adverse experience in managing risks. In Australia, APRA has issued a set of Prudential Standards which prescribe a minimum capital requirement for each Fund and the Company as a whole. APRA introduced new Prudential Standards with effect from 1 January 2013, the Life and General Insurance Capital ("LAGIC") Standards. The LAGIC Standards replace the solvency requirements under LPS 2.04 (applied and disclosed for the 30 September 2012 financial statements) with capital adequacy requirements. Comparative information is not disclosed in relation to the regulatory capital position for each Fund and the Company as a whole as the current set of Prudential Standards became effective 1 January 2013. Disclosures for 30 September 2012 are based on LPS 2.04 Solvency Standard, the Prudential Standard in place at that time.

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

At 30 September 2013 ($m)	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Fund No 6	Shareholder Fund	Total
Net assets	2,025	312	14	69	82	1	348	2,851
Regulatory adjustments	(1,774)	29	1	5	49	-	(136)	(1,826)
Total capital base	251	341	15	74	131	1	212	1,025
comprising of:								
Common Equity Tier 1 Capital	251	341	15	74	131	1	212	1,025
Additional Tier 1 Capital	-	-	-	-	-	-	-	-
Tier 2 Capital	-	-	-	-	-	-	-	-
Prescribed capital amount	96	173	3	41	78	-	23	414
consisting of:								
Insurance Risk Charge	-	-	-	-	6	-	-	6
Asset Risk Charge	36	46	2	16	52	-	8	160
Asset Concentration Risk Charge	-	-	-	-	-	-	11	11
Operational Risk Charge	50	127	1	25	5	-	-	208
Aggregation benefit	-	-	-	-	(4)	-	-	(4)
Combined stress scenario adjustment	10	-	-	-	19	-	4	33
Capital Adequacy Multiple (times)	2.61	1.97	5.00	1.80	1.68	-	9.22	2.48

At 30 September 2012 ($m)	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Total
Solvency reserve	285	157	10	44	320	816
Assets available for solvency	616	325	15	62	524	1,542
Coverage of solvency reserve (times)	2.16	2.07	1.50	1.41	1.64	1.89

(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 139 and AASB 118 for life investment contracts.

8 Policy liabilities (continued)

(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	Projection	Claims
Individual term life insurance	Projection	Claims
Individual disability income insurance	Projection	Claims
Annuity business	Projection	Annuity payments
Group insurance	Accumulation	n/a
Term Deposits	Accumulation	n/a
Fixed Rate Options	Accumulation	n/a
Investment account	Accumulation	n/a
National Credit Card Cover	Accumulation	n/a

(iii) Discount rates

These are the rates used to discount future cash flows to determine their net present value. To the extent that policy benefits are contractually linked to the performance of assets held, the rate used is based on the market returns of those assets.. For other policy liabilities, the rates used are based on risk-free rates.

Discount rates	2013	2012
Traditional business - participating		
Ordinary (1)	4.3%	3.5%
Superannuation (1)	5.2%	4.3%
Traditional business - non participating		
Ordinary (1)	5.0%	3.9%
Term life and disability income (excluding claims in payment) insurance	2.8-4.9%	3.2-4.0%
Disability claims in payment	4.7%	3.8%
Annuity business (2)	3.4-4.5%	3.1-3.7%

(1) After tax.

(2) After investment expense of 0.2%

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase with inflation of 2.6% (2012 2.6%) per annum. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the assumed growth in the consumer price index. The policy liabilities assume a future take-up of these indexation options based on the Company's recent experience. The assumed annual indexation rate for policy liabilities for outstanding disability income and salary continuance claims is 2.4% (2012: 2.5%).

(v) Rates of taxation

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

8 Policy liabilities (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the Institute of Actuaries of Australia, 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	Male: 65%-85% of IA 95-97 (1) for non-smokers with adjustments for smokers Female:65%-85% of IA 95-97 (1) for non-smokers with adjustments for smokers
LoanCover / EasyCover term life insurance	Male/Female: 70%-135% of IA 95-97 (1) for non-smokers with adjustments for smokers
Disability income insurance	Male: Rates similar to 115%-135% of incidence and 20-80% of termination rates of IAD 89-93 (2) Female: Rates similar to 75% of incidence and 20-80% of termination rates of IAD 89-93 (2)
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 (2)
Annuity business	Male: 65% up to age 75 + 1% for each year onwards to max 100% of IM92 (3) at age 110. Female: 47.5% up to age 75 + 1.5% for each year onwards to max 100% of IF92 (3) at age 110.

(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) 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.

(3) IM 92 and IF 92 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on UK annuitant lives experience from 1991 to 1994. The tables refer to male and female lives, respectively and incorporate factors which allow for mortality improvements since the date of the investigation (there is no standard Australian annuitant mortality table).

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows:

Product type	**2013**	**2012**
Traditional business - participating		
Ordinary	6%	6%
Superannuation	7%	7%
Traditional business - non participating		
Ordinary	6%	6%
Term life insurance	11 – 13%	10 - 12%
Disability insurance	11 – 13%	11 - 12%
Direct products	17 – 35%	17 - 35%

(viii) Surrender values

Surrender values are based on the provision specified in policy contracts and on the current surrender value basis for traditional policies, and may include a recovery of policy acquisition and maintenance costs. In all cases, the surrender values specified in the contracts exceed those required by the *Life Act*.

8 Policy liabilities (continued)

(ix) Future participating benefits

For participating business, the Company's policy is to set bonus rates 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	
	2013	2012	2013	2012
Bonus rate on sum assured	0.4%	0.2%	0.3%	0.8%
Bonus rate on existing bonuses	0.4%	0.2%	0.3%	0.8%

(c) Effects of changes in actuarial assumptions from:

	30 September 2012 to 30 September 2013		30 September 2011 to 30 September 2012	
Assumption category	Change in future profit margins Increase / (decrease) $m	Change in net policy liabilities Increase / (decrease) $m	Change in future profit margins Increase / (decrease) $m	Change in net policy liabilities Increase / (decrease) $m
Inflation	-	(4)	-	(6)
Market related changes to discount rates	2	(79)	(11)	99
Non-market related changes to discount rates	-	-	-	-
Mortality and morbidity	(472)	83	27	(14)
Discontinuance rates	(196)	-	(211)	-
Maintenance expenses	(24)	-	(4)	-
Other assumptions	48	-	9	-
Total	(642)	-	(190)	79

The numbers in the above table are net of reinsurance.

(d) Sensitivity analysis

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as mortality, morbidity, discontinuances and expenses. The valuations included in the reported results are the best estimate of future performance, 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 15 Risk Management Information in accordance with AASB 7 *Financial Instruments: Disclosures.*

8 Policy liabilities (continued)

		2013 Gross (before reinsurance)		2013 Net (after reinsurance)	
	Change in variable	**Profit/ (loss) $m**	**Policy liabilities $m**	**Profit/ (loss) $m**	**Policy liabilities $m**
Discount rates	1% increase in discount rate	3	(76)	(12)	(54)
Inflation rate	0.5% increase in inflation rate	-	22	8	10
Annuitant mortality	50% increase in the rate of mortality improvement	(11)	15	(11)	15
Mortality	10% increase in mortality rates	-	-	-	-
Morbidity	10% increase in disability incidence rates	(44)	62	(49)	70
Morbidity	10% decrease in disability termination rates	(134)	191	(126)	180
Discontinuance rates	10% increase in discontinuance rates	-	-	(1)	1
Maintenance expenses	10% increase in maintenance expenses	(3)	4	(8)	11

		2012 Gross (before reinsurance)		2012 Net (after reinsurance)	
	Change in variable	**Profit/ (loss) $m**	**Policy liabilities $m**	**Profit/ (loss) $m**	**Policy liabilities $m**
Discount rates	1% increase in discount rate	(20)	(84)	(32)	(67)
Inflation rate	0.5% increase in inflation rate	(9)	43	(3)	33
Annuitant mortality	50% increase in the rate of mortality improvement	(12)	17	(12)	17
Mortality	10% increase in mortality rates	-	1	-	1
Morbidity	10% increase in disability incidence rates	-	-	-	-
Morbidity	10% decrease in disability termination rates	(36)	51	(26)	37
Discontinuance rates	10% increase in discontinuance rates	-	1	-	1
Maintenance expenses	10% increase in maintenance expenses	(1)	3	(1)	3

(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, lapse rates
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality
Conventional with discretionary participating benefits	Combination of life insurance and savings Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapse rates, investment earnings

(f) Insurance risk

The management of risks inherent in a life insurance company are also governed by the requirements of the *Life Act* and other Prudential Regulations, which include provisions to hold reserves against unmatched assets and liabilities. Insurance 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. Insurance risk exposure arises in the life insurance business primarily through mortality (death) or morbidity (illness or injury) risks.

9 Provisions

	Note	2013 $m	2012 $m
Superannuation contributions tax	(i)	77	190
Warranties	(ii)	-	5
Other	(iii)	20	9
Total provisions		97	204

All provisions are expected to be settled within 12 months.

Reconciliations of movements in provisions

(i) Superannuation contributions tax

	2013 $m	2012 $m
Balance at the beginning of the year	190	164
Provision made	177	242
Amounts used	(290)	(216)
Balance at the end of the year	77	190

This represents contributions tax deducted from superannuation members' accounts which is payable to the ATO. This includes transfer of taxable contributions (Section 275 transfer) to the Company.

(ii) Warranties	2013 $m	2012 $m
Balance at the beginning of the year	5	17
Provision released	(5)	(12)
Balance at the end of the year	-	5

The provision represents warranties given on the sale of controlled entities.

(iii) Other

	2013 $m	2012 $m
Balance at the beginning of the year	9	6
Provision made	16	10
Provision released	(5)	(7)
Balance at the end of the year	20	9

10 Policyholder retained profits

	2013 $m	2012 $m
Balance at the beginning of the year	111	143
Decrease in policyholder retained profits recognised in Statement of comprehensive income	(6)	(32)
Balance at the end of the year	105	111

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

11 Payables

Related party payables		
Ultimate parent entity - tax related	8	91
Ultimate parent entity - other	1	2
Commonly controlled entities	6	5
Policy claims payable	116	106
Accrued expenses	66	69
Unsettled investment transactions	2	-
Trade and other creditors	93	67
Total payables	292	340

All payables are expected to be settled within 12 months.

12 Contributed equity

Issued and paid-up share capital

2,045,286,160 (2012: 2,045,286,160) ordinary shares, fully paid	2,357	2,357

Ordinary shares

There were no movements (2012: increase of $2,043,626,292) in ordinary share capital during the current financial year as shown in the Statement of changes in equity.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of a winding-up of the Company, ordinary shareholders rank after creditors. Ordinary shares have no par value.

Non-redeemable preference shares

During the prior year, the Company cancelled all non-redeemable preference shares as shown in the Statement of changes in equity.

13 Capital Reserve

	2013 $m	2012 $m
Capital reserve	61	61

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

14 Retained profits

	2013 $m	2012 $m
Balance at the beginning of the year	545	673
Net profit attributable to owners of the Company	243	296
	788	969
Dividends paid	(355)	(424)
Balance at the end of the year	433	545

15 Risk management and financial instruments information

Risk management

The Company is a member of the NAB Group and seeks to apply its governance and risk management framework. The NAB's Board has established a formal 'risk appetite statement' to help business units appropriately manage risk, return and capital. The NAB's approach to risk management is based on the overriding principle that risk management capability must be embedded within each business to be effective. This principle is designed to help ensure:

- All business decisions pro-actively consider risk;
- Business managers use the risk management and capital management frameworks to help balance risk and reward components;
- Employees have the knowledge and tools to complete their work effectively and efficiently;
- All employees are responsible for risk management in their day-to-day activities; and
- Risk management is a core competency for all employees

NAB Wealth has an executive Risk Committee comprised of senior executives which serves to provide a senior leadership focus on key risks within the NAB Wealth business.

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.

All derivatives are recorded in the Statement of financial position at fair value as detailed in Note 1.

Risks and mitigation

The Company is exposed to credit risk, liquidity risk and market risk (including interest rate risk, equity price risk and currency risk). Within the Company a significant proportion of policyholder liabilities are directly linked to the performance, including valuation, 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.

15 Risk management and financial instruments information (continued)

(a) 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 business units 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 No. 1 and the participating business in Statutory Fund No. 5.

The Company manages interest rate risk in accordance with the NAB Group policy by maintaining an appropriate mix of fixed and variable rate instruments and the management of maturity dates of interest bearing instruments.

The Company may enter into interest rate options and futures to manage cash flows, to reduce risk and to reduce transaction costs.

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 analysis below demonstrates the impact of a 100 basis point movement in Australian and International interest rates, as at the end of each reporting period.

Change in interest rates	Impact on profit after tax		Impact on Equity	
	2013 $m	2012 $m	2013 $m	2012 $m
+ 100 basis points	(16.3)	(40.1)	(16.3)	(40.1)
- 100 basis points	16.5	40.4	16.5	40.4

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.

(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.

15 Risk management and financial instruments information (continued)

Pricing sensitivity analysis

The analysis below demonstrates the impact of a 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, therefore any potential 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	
	2013 $m	2012 $m	2013 $m	2012 $m
10% increase	14.4	11.7	14.4	11.7
10% decrease	(14.4)	(11.7)	(14.4)	(11.7)

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 or 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 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's financial assets are primarily denominated in the same currency as its policy liabilities. Currency forward foreign exchange contracts may be entered into 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 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	
	2013 $m	2012 $m	2013 $m	2012 $m
10% increase in foreign currency rates	5.7	4.6	5.7	4.6
10% decrease in foreign currency rates	(5.7)	(4.6)	(5.7)	(4.6)

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.

15 Risk management and financial instruments information (continued)

(b) 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 large 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.

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 Statement of financial position.

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 2013						
Financial assets - at fair value through profit or loss	2,874	6	7	1,472	60,866	65,225
Loans and other receivables	499	-	-	255	-	754
	3,373	6	7	1,727	60,866	65,979
30 September 2012						
Financial assets - at fair value through profit or loss	3,100	4	4	1,375	52,360	56,843
Loans and other receivables	374	-	-	252	-	626
	3,474	4	4	1,627	52,360	57,469

15 Risk management and financial instruments information (continued)

(b) Credit Risk (continued)

(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.

(c) Liquidity Risk

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

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

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

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

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

Maturity profiles

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

	Maturity						
	0-3 months	3-12 months	1-5 years	> 5 years	Investment Linked	No specific maturity	Total
30 September 2013	$m	$m	$m	$m	$m	$m	$m
Payables	284	8	-	-	-	-	292
Policy liabilities	357	390	92	12	61,247	2,477	64,575
	641	398	92	12	61,257	2,477	64,867
30 September 2012							
Payables	249	91	-	-	-	-	340
Policy liabilities	329	461	124	26	53,371	2,314	56,625
	578	552	124	26	53,371	2,314	56,965

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.

15 Risk management and financial instruments information (continued)

Capital risk management

The Company's key objectives and principles for managing capital are to satisfy regulatory requirements, support the Company's credit rating, 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, sell assets or otherwise adjust debt levels.

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. Detail on regulatory capital requirements imposed by the *Life Act* is provided in Note 8a.

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

15 Risk management and financial instruments information (continued)

Fair Value Measures

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of input are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or liabilities.

Level 2: fair value measurements are those derived from 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 are those derived from valuation techniques that include inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by each level of the fair value hierarchy:

30 September 2013	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total fair value $m**
Assets				
Equity securities	500	39,578	2,873	42,951
Debt securities	3,254	15,928	-	19,182
Property securities	-	2,994	-	2,994
Other financial assets	-	98	-	98
Total financial assets	3,754	58,598	2,873	65,225
Liabilities				
Investment contract liabilities	-	62,098	-	62,098
Total financial liabilities	-	62,098	-	62,098
30 September 2012				
Assets				
Equity securities	393	33,891	2,638	36,922
Debt securities	2,224	15,085	-	17,309
Property securities	-	2,601	-	2,601
Other financial assets	-	11	-	11
Total financial assets	2,617	51,588	2,638	56,843
Liabilities				
Investment contract liabilities	-	54,300	-	54,300
Total financial liabilities	-	54,300	-	54,300

15 Risk management and financial instruments information (continued)

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:

Assets	At 1 Oct 2012 $m	Total gains/ losses included in Statement of Comprehensive Income $m	Net Purchases/(Sales) $m	Net transfers in/(out) $m	At 30 Sep 2013 $m	Total fair value $m
Equity securities	2,638	454	49	(268)	2,873	2,873

The total gains included in the Statement of comprehensive income detailed in the table above include the foreign exchange movement. After taking into account the foreign exchange losses, the total gain for these financial assets is estimated to be $584m (2012: $213 million) in the current year.

Assets	At 1 Oct 2011 $m	Total gains/ losses included in Statement of Comprehensive Income $m	Net Purchases/(Sales) $m	Net transfers in/(out) $m	At 30 Sep 2012 $m	Total fair value $m
Equity securities	2,600	(91)	129	-	2,638	2,638

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

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

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

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

16 Notes to the Statement of cash flows

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the Statement of cash flows are reconciled to the related items in the Statement of financial position as follows:

	2013 $m	2012 $m
Cash at bank and cash equivalents	2,124	2,304

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

	2013 $m	2012 $m
Profit after tax	243	296
Add non-cash items:		
Amortisation	14	9
Changes in assets and liabilities:		
Increase in financial assets at fair value through profit and loss	(8,297)	(2,204)
Increase in loans and other receivables	(242)	(209)
Decrease in deferred tax assets	84	441
Increase in gross policy liabilities	7,742	3,918
Increase/(decrease) in gross policy liabilities ceded under reinsurance	182	(665)
Increase in policyholder retained profits	(6)	(32)
Increase in deferred tax liabilities	610	4
Decrease in provisions and payables	(155)	(131)
Net cash from operating activities	175	1,427

17 Particulars in relation to controlled entities

Investments in controlled entities

The following table presents the significant controlled entities of the Company:

Entity name	Country of incorporation	Ownership		Investment	
		2013 %	2012 %	2013 $m	2012 $m
Plum Financial Services Limited	Australia	100	100	103	103
MLC Nominees Pty Limited	Australia	100	100	5	5
				108	108

18 Other life insurance disclosures

	2013 $m	2012 $m
(a) Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	159	174
Experience loss	(85)	(91)
Effects of changes to assumptions	(42)	-
Reversal of (losses recognised)/capitalised losses	(16)	7
Profit after income tax - Life insurance contracts	16	90
Life investment contracts		
Fees earned	146	140
Investment earnings on shareholder retained profits and capital	84	94
Loss from Shareholder Fund	(3)	(28)
Profit after income tax - Life investment contracts	81	66
Profit after income tax	243	296
(b) Reconciliation to Life Act profit		
Profit after income tax	243	296
Bonuses provided for or paid in the current year		
Interim and terminal bonus on claims paid	24	20
Declared bonus on in force policies	22	28
Decrease in unvested policyholder benefits	(6)	(32)
Life Act profit after income tax	283	312
(c) Reconciliation of Life Act retained earnings		
Life Act retained earnings at the beginning of the year	446	606
Life Act profit after income tax	283	312
Dividend paid	(355)	(424)
Provision for bonuses to participating policyholders	(70)	(48)
Life Act retained earnings at the end of the year	304	446

18 Other life insurance disclosures (continued)

(d) Statutory fund information

(i) Details of statutory funds

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

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

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

30 September 2013

	Statutory Funds							Shareholder	Total
	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 5 $m	Fund 6 $m	All funds $m	Fund $m	Company $m
Premium revenue									
Life insurance contracts	1,407	-	-	-	72	-	1,479	-	1,479
Investment revenue	66	8,009	64	1,468	191	-	9,798	9	9,807
Fee and other operating revenue	2	428	6	124	-	-	560	-	560
Total revenue	1,475	8,437	70	1,592	263	-	11,837	9	11,846
Claims expense									
Life insurance contracts	666	-	-	-	243	-	909	-	909
Change in policy liabilities	232	7,369	47	1,500	(50)	-	9,098	-	9,098
Change in policyholder retained profits	-	-	-	-	(6)	-	(6)	-	(6)
Other operating expenses	478	369	3	99	18	-	967	16	983
Total expenses	1,376	7,738	50	1,599	205	-	10,968	16	10,984
Profit/(loss) before income tax	99	699	20	(7)	58	-	869	(7)	862
Income tax (expense)/benefit	(32)	(565)	(13)	31	(44)	-	(623)	4	(619)
Net profit/(loss) after income tax	67	134	7	24	14	-	246	(3)	243

18 Other life insurance disclosures (continued)

30 September 2012

	Statutory Funds						Shareholder	Total
	Fund 1 $m	Fund 2 $m	Fund 3 $m	Fund 4 $m	Fund 5 $m	All funds $m	Fund $m	Company $m
Premium revenue								
Life insurance contracts	1,285	-	-	-	74	1,359	-	1,359
Investment revenue	258	4,862	50	954	247	6,371	-	6,371
Fee and other operating revenue	-	411	7	119	-	537	-	537
Total revenue	1,543	5,273	57	1,073	321	8,267	-	8,267
Claims expense								
Life insurance contracts	530	-	-	-	255	785	-	785
Change in policy liabilities	272	4,524	46	996	19	5,857	-	5,857
Change in policyholder retained profits	-	-	-	-	(32)	(32)	-	(32)
Other operating expenses	457	334	4	114	19	928	45	973
Total expenses	1,259	4,858	50	1,110	261	7,538	45	7,583
Profit/(loss) before income tax	284	415	7	(37)	60	729	(45)	684
Income tax (expense)/benefit	(122)	(269)	(2)	42	(54)	(405)	17	(388)
Net profit/(loss) after income tax	162	146	5	5	6	324	(28)	296

(iii) Abbreviated Statement of financial position at fund level and company level

30 September 2013

	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	1,903	50,718	400	10,024	2,081	1	65,127	108	65,235
Policy liabilities ceded	324	-	-	-	-	-	324	-	324
Other assets	1,240	1,057	33	271	201	-	2,802	262	3,064
Total assets	3,467	51,775	433	10,295	2,282	1	68,253	370	68,623
Policy liabilities									
Life insurance contracts	521	-	-	-	1,956	-	2,477	-	2,477
Life investment contracts	851	50,782	394	10,071	-	-	62,098	-	62,098
Other liabilities	67	683	24	155	245	-	1,174	23	1,197
Total liabilities	1,439	51,465	418	10,226	2,201	-	65,749	23	65,772
Net assets	2,028	310	15	69	81	1	2,504	347	2,851
Contributed equity	-	-	-	-	-	-	-	2,357	2,357
Capital transfer between funds	1,837	140	6	31	15	1	2,030	(2,030)	-
Capital reserve	-	-	-	-	-	-	-	61	61
Retained profits	191	170	9	38	66	-	474	(41)	433
Total equity	2,028	310	15	69	81	1	2,504	347	2,851
Transfer from/(to) funds	(364)	(117)	(3)	(9)	-	-	(493)	493	-

18 Other life insurance disclosures (continued)

(iii) Abbreviated Statement of financial position at fund level and company level

30 September 2012	Statutory Funds						Shareholder	Total
	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	All funds	Fund	Company
	$m	$m	$m	$m	$m	$m	$m	$m
Investment assets	2,355	43,286	394	8,680	2,128	56,843	108	56,951
Policy liabilities ceded	268	-	-	-	-	268	-	268
Other assets	1,254	1,298	24	198	117	2,891	152	3,043
Total assets	3,877	44,584	418	8,878	2,245	60,002	260	60,262
Policy liabilities								
Life insurance contracts	272	-	-	-	2,053	2,325	-	2,325
Life investment contracts	929	44,268	397	8,706	-	54,300	-	54,300
Other liabilities	354	25	8	116	139	642	32	674
Total liabilities	1,555	44,293	405	8,822	2,192	57,267	32	57,299
Net assets	2,322	291	13	56	53	2,735	228	2,963
Contributed equity	-	-	-	-	-	-	2,357	2,357
Capital transfer between funds	1,837	140	6	31	-	2,014	(2,014)	-
Capital reserve	-	-	-	-	-	-	61	61
Retained profits	485	151	7	25	53	721	(176)	545
Total equity	2,322	291	13	56	53	2,735	228	2,963
Transfers from/(to) funds	(253)	(133)	(6)	(23)	(8)	(423)	423	-

19 Commitments, contingencies and fiduciary activities

(a) Investment commitments

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

	2013 $m	2012 $m
Investment commitments	1,100	1,140

(b) Contingencies

Guarantees

A guarantee to the value of $5 million (2012: $5 million) has been provided by NAB to the Company and held in favour of a related party, PFS Nominees Pty Limited ("PFS"). The purpose of this guarantee is to meet the requirements of PFS's RSE Licence.

19 Commitments, contingencies and fiduciary activities (continued)

Litigation

The Company is a defendant from time to time in legal proceedings arising from the conduct of their 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 $7m at the reporting date.

(c) Fiduciary activities

Restrictions on assets
Assets held in the Statutory Funds are subject to the distribution and transfer restrictions and other requirements of the *Life Act* and the Constitution of the respective companies. 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 solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the capital adequacy requirements are met.

20 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	**2013** **$**	**2012** **$**
Short term employee benefits	2,452,574	2,200,390
Post employment benefits	79,491	159,281
Termination benefits	105,203	-
Share based payment	1,055,005	1,177,964
Total	3,692,273	3,537,635

Non-director related parties

The immediate parent entity of the company is MLC Holdings Limited and the ultimate parent entity is National Australia Bank Limited. Both companies are incorporated in Australia. Transactions with related parties are generally on arm's length terms and conditions. Amounts receivable from and payable to related parties are interest free and unsecured. These are shown in Notes 6 and 11.

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

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

20 Related party disclosures (continued)

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

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

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

The aggregate amounts paid to/(received from) related parties of the Company	2013 $m	2012 $m
Ultimate parent entity		
NAB - commission services	3	6
Common controlled entities		
MLC Investments Limited - managed assets	(12)	(10)
GWM Adviser Services Limited - distribution allowance	73	98
National Corporate Investment Services Limited - advisory services	7	7
nabInvest Capital Partners Pty Limited - advisory services	17	18
National Wealth Management Services Limited – management services	333	377
	421	496

Interest offset arrangement
Under an interest offset arrangement provided by the Company's banks, eligible bank accounts within the National Wealth Management Holdings Limited group of Companies ("NWMH group") are grouped for the purposes of calculating interest. This ensures that balances of overdraft facilities utilised can be 'offset' by other bank balances held within NWMH group, and NWMH group only receives/pays interest on the net cash balance.

As at 30 September 2013, the Company held $182 million (2012: $42 million) of shareholder bank balances that were part of the interest offset arrangement.

21 Remuneration of external auditor

	2013 $	2012 $
Total amounts paid or due and payable to auditor of the Company for:		
Audit of the financial statements	1,490,972	1,491,155
Regulatory services	199,700	41,700
Other services	26,993	60,000
	1,717,665	1,592,855

The auditor of the Company is Ernst and Young. These fees are paid by a related party.

22 Subsequent events

No 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
Financial statements for the year ended 30 September 2013
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 2013 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*; 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 8th day of November 2013.

Director

Director

MLC Limited

Financial statements for the year ended 30 September 2013

Appointed actuary's Statement

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

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

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

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

This statement is made and signed in Sydney on the 8th day of November 2013.

Appointed Actuary
J Lang

Building a better
working world

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

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

Independent auditor's report to the members of MLC Limited

Report on the financial report

We have audited the accompanying financial report of MLC Limited, (the "Company" which comprises the statement of financial position as at 30 September 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Opinion

In our opinion:

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

   i giving a true and fair view of the Company's financial position as at 30 September 2013 and of its performance for the year ended on that date;

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

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

Ernst & Young.

Ernst & Young

Graeme McKenzie
Partner
Sydney
8 November 2013