

MLC Limited
ABN 90 000 000 402
Annual Financial Report 2014

MLC Limited
Table of contents

	Page
Directors' report	1
Auditor's independence declaration	4
Statement of comprehensive income	6
Balance sheet	7
Statement of cash flows	8
Statement of changes in equity	9
Notes to the financial statements	
1 Significant accounting policies	10
2 Revenue	22
3 Expenses	23
4 Income tax	24
5 Dividends paid and proposed	25
6 Financial assets	26
7 Intangible assets	27
8 Payables	28
9 Provisions	28
10 Policy liabilities	29
11 Policyholder retained profits	37
12 Contributed equity	37
13 Capital reserve	37
14 Retained profits	37
15 Notes to the Statement of cash flows	38
16 Interests in subsidiaries and other entities	38
17 Commitments, contingencies and fiduciary activities	40
18 Risk management and financial instruments information	41
19 Other life insurance disclosures	49
20 Related party disclosures	53
21 Remuneration of external auditor	54
22 Subsequent events	54
Directors' declaration	55
Appointed Actuary's statement	56
Independent auditor's report	57

MLC Limited

Directors' report

The Director's present their report, together with the general purpose financial statements of MLC Limited (the Company) for the year ended 30 September 2014 and the auditor's report thereon.

Certain definitions

The Company's financial year ends on 30 September. The financial year ended 30 September 2014 is referred to as 2014 and other financial years are referred to in a corresponding manner. Any discrepancies between total and sums of components in tables contained in this report and accompanying financial statements are due to rounding.

Rounding

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

Directors

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

Director	Appointed	Resigned
S C Birkenleigh	27 February 2012	
P Coad	22 August 2013	7 July 2014
J G Duffield	24 August 2011	7 July 2014
P Gupta	1 September 2012	
D M Hackett	29 January 2014	
A Hagger	22 May 2013	
A W Rothery	14 April 2009	31 October 2014
E Rubin	22 May 2013	
M F Snowden	25 August 2009	7 July 2014
G J Symons	14 April 2009	7 July 2014
G A Tomlinson	30 June 2000	
D West	25 August 2011	14 November 2013

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 2014 is \$189 million (2013: \$243 million). The profit was attained in the normal course of operations of the Company.

MLC Limited

Directors' report (continued)

Dividends

The directors have not declared a final dividend in respect to the financial year 2014.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended 30 September 2013 of 18 cents per fully paid ordinary share, paid on 19 December 2013 (\$198 million) and 11 April 2014 (\$162 million). The total payment amount was \$360 million; and
- the interim dividend for the year ended 30 September 2014 of 6 cents per fully paid ordinary share, paid on 30 September 2014. The payment amount was \$123.5 million

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

State of affairs

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 and performance

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

Events subsequent to end of the reporting period

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

(i) Indemnification

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

(ii) Insurance premiums

During the financial year a related entity paid premiums in respect of contracts insuring Directors and officers for liability and legal expenses for the year ended 30 September 2014. 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 2015. 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.

MLC Limited

Directors' report (continued)

Auditor's independence declaration

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

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



Director

Sydney
7 November 2014



Director

Sydney
7 November 2014



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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 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Graeme McKenzie
Partner
7 November 2014

MLC Limited

Financial statements for the year ended 30 September 2014

	Page
Financial statements	
Statement of comprehensive income	6
Balance sheet	7
Statement of cash flows	8
Statement of changes in equity	9
Notes to the financial statements	10
Directors' declaration	55
Appointed Actuary's statement	56
Independent auditor's report	57

These financial statements are the financial statements for MLC Limited. A list of major subsidiaries is included in Note 16.

The financial statements are presented in Australian currency.

MLC Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

MLC Limited
105-153 Miller Street
North Sydney, NSW 2060

A description of the nature of the Company's operations and its principal activities is included in the Directors' report on pages 1 to 3, both of which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 7 November 2014. The Directors have the power to amend and reissue the financial statements.

MLC Limited**Financial statements for the year ended 30 September 2014****Statement of comprehensive income**

	Note	2014 \$m	2013 \$m
Premium and related revenue	2	1,570	1,479
Fee revenue	2	576	544
Investment revenue	2	6,197	9,807
Other operating revenue	2	22	16
Total revenue		8,365	11,846
Claims expense	3	(940)	(909)
Change in life insurance contract policy liabilities	10	(397)	(152)
Change in life investment contract policy liabilities	10	(5,615)	(9,002)
Change in liabilities ceded under reinsurance	10	29	56
Change in policyholder retained profits	11	-	6
Operating expenses	3	(1,047)	(983)
Total expenses		(7,970)	(10,984)
Profit before income tax		395	862
Income tax expense - policyholder		(139)	(519)
Income tax expense - shareholder		(67)	(100)
Total income tax expense	4	(206)	(619)
Profit after tax attributable to owners of the Company		189	243
Other comprehensive income for the period net of tax		-	-
Total comprehensive income for the period attributable to owners of the Company		189	243

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

MLC Limited**Financial statements for the year ended 30 September 2014****Balance sheet**

	Note	2014 \$m	2013 \$m
Assets			
Cash and cash equivalents	15(a)	2,246	2,124
Financial assets at fair value through profit or loss	6(a)	72,247	65,225
Loans and other receivables	6(b)	640	754
Investments in controlled entities	16	108	108
Intangible assets	7	43	78
Life insurance policy liabilities ceded under reinsurance	10	353	324
Deferred tax assets	4	37	10
Total assets		75,674	68,623
Liabilities			
Payables	8	272	292
Provisions	9	61	97
Life insurance contract liabilities	10	2,614	2,477
Life investment contract liabilities	10	69,224	62,098
Policyholder retained profits	11	105	105
Deferred tax liabilities	4	842	703
Total liabilities		73,118	65,772
Net assets		2,556	2,851
Equity			
Contributed equity	12	2,357	2,357
Capital reserve	13	61	61
Retained profits	14	138	433
Total equity		2,556	2,851

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

MLC Limited

Financial statements for the year ended 30 September 2014

Statement of cash flows

	Note	2014 \$m	2013 \$m
Cash flows from operating activities			
Premiums received relating to life insurance contracts		1,712	1,571
Premiums received relating to life investment contracts		11,644	7,653
Payments in respect of life insurance contracts		(1,078)	(1,022)
Payments in respect of life investment contracts		(9,803)	(8,278)
Interest received		678	695
Interest paid		-	(9)
Dividends and distributions received		890	778
Net cash received in respect of reinsurance transactions		10	3
Other investment revenue in the course of operations		593	681
Income tax paid/(refunded)		42	(133)
Fees and commissions paid		(497)	(486)
Other cash payments in the course of operations		(411)	(565)
Net proceeds from sale of investments backing life insurance policies		303	453
Net payment arising from sale and purchase of investments backing life investment policies		(3,478)	(1,166)
Net cash from operating activities	15(b)	605	175
Cash flows used in investing activities			
Net movements in loans to commonly controlled entities		1	-
Net cash used in investing activities		1	-
Cash flows (used in)/from financing activities			
Dividends paid		(484)	(355)
Net cash used in financing activities		(484)	(355)
Net increase/(decrease) in cash and cash equivalents		122	(180)
Cash and cash equivalents at the beginning of the period		2,124	2,304
Cash and cash equivalents at the end of the period	15(a)	2,246	2,124

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

MLC Limited

Financial statements for the year ended 30 September 2014

Statement of changes in equity

	Contributed equity ⁽¹⁾	Reserves ⁽²⁾	Retained profits ⁽³⁾	Total Equity
	\$m	\$m	\$m	\$m
Year to 30 September 2013				
At 1 October 2012	2,357	61	545	2,963
Net profit for the year	-	-	243	243
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	243	243
<i>Transactions with owners, recorded directly in equity:</i>				
Issue of shares	-	-	-	-
Dividends paid	-	-	(355)	(355)
Total transactions with owners	-	-	(355)	(355)
Balance at 30 September 2013	2,357	61	433	2,851
Year to 30 September 2014				
At 1 October 2013	2,357	61	433	2,851
Net profit for the year	-	-	189	189
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	189	189
<i>Transactions with owners, recorded directly in equity:</i>				
Issue of shares	-	-	-	-
Dividends paid	-	-	(484)	(484)
Total transactions with owners	-	-	(484)	(484)
Balance at 30 September 2014	2,357	61	138	2,556

⁽¹⁾ Refer to Note 12 for further details.

⁽²⁾ Refer to Note 13 for further details.

⁽³⁾ Refer to Note 14 for further details.

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies

The financial report for MLC Limited (the Company) for the year ended 30 September 2014 was authorised for issue on 7 November 2014 in accordance with a resolution of the Directors.

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

The nature of the operations and principal activities of the Company are described in the Directors' report. Information about the Company's structure, including its parent and ultimate parent, are included in Note 20 Related party disclosures.

(a) Basis of preparation

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

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

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

(b) Statement of compliance

The financial statements have been prepared in accordance with the requirements of Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) New and amended accounting standards and interpretations

(i) Changes in accounting policy and disclosure

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 October 2013. The nature and impact of each new standard and amendment is described below.

AASB 10 'Consolidated Financial Statements' (and consequential amendments AASB 2011-7 and 2012-10)

This standard introduces a single control model to determine which investees should be consolidated. It defines control as consisting of three elements: power, exposure to variable returns, and an investor's ability to use power to affect its amount of variable returns. This requires an analysis of all facts and circumstances and the application of judgement in making the control assessment.

There is no financial impact from the adoption of this new standard as the Company does not prepare consolidated financial statements.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

AASB 12 'Disclosure of Interests in Other Entities'

AASB 12 includes new disclosures relating to the Company's interests in subsidiaries and structured entities. AASB 12 requires disclosures about the significant judgements and assumptions made by management in determining whether control exists. Specific disclosures are also required relating to the nature of risks and interests in structured entities. The new disclosures can be found in Note 16 *Interests in subsidiaries and other entities*. In accordance with the transitional provisions, comparatives have not been presented.

AASB 13 'Fair Value Measurement' (and consequential amendment AASB 2011-8)

AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. AASB 13 applies to both financial instrument items and non-financial instrument items for which other accounting standards require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions, leasing transactions, and measurements that have some similarities to fair value but are not fair value (e.g. value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

The application of AASB 13 has not had any material impact on the amounts recognised in the financial statements, however additional disclosures have been incorporated in Note 18 *Risk management and financial instruments information*.

Other new standards and interpretations

The Company has adopted the following new and amended standards and interpretations as of 1 October 2013 with no material impact:

AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' has been amended to clarify the conditions for offsetting financial assets and liabilities. These amendments do not impact the Company's current accounting practice for offsetting arrangements, however additional disclosures have been included in Note 18 *Risk management and financial instruments information*.

AASB 11 'Joint Arrangements' (and consequential amendments AASB 2011-7, 2010-10 and amendments to AASB 128) introduces a revised model for accounting for joint arrangements.

AASB 1053 'Application of Tiers of Australian Accounting Standards' establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The Company is considered Tier 1.

AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' removes the requirements to include individual key management personnel disclosures in the notes to the financial statements, although does not change the Corporations Act 2001 (Cth) requirements in respect of the Remuneration report.

AASB 2012-5 'Amendments to Australian Accounting Standards arising from annual improvements 2009-2011 cycle' provides clarification of the requirements for comparative information and other financial instrument presentation changes.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'. Part A of the amendment makes consequential amendments arising from the issuance of AASB CF 2013-1 'Amendment to the Australian Conceptual Framework' which replaces the guidance in the Framework on the objective of general purpose financial reporting and the qualitative characteristics of useful financial information, as an integral part of the Framework and it also withdraws Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting.

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

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

Applicable for the year commencing 1 October 2014, with no material impact:

AASB 119 'Employee Benefits' which requires the amounts recorded in profit or loss to be limited to current and past service costs, gains or losses, settlements and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses, will be recognised in other comprehensive income with no subsequent recycling to profit or loss.

AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' adds application guidance to AASB 132 'Financial Instruments Presentation' to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2013-3 'Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets' amends the disclosure requirements of AASB 136 to include additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities' defines an investment entity and requires that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 when it obtains control of another entity. This amendment will only affect some subsidiaries of the Company deemed to be investment entities that prepare separate financial statements.

AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policy holders [AASB 1038]'. AASB 2013-7 removes the specific requirements in relation to consolidation from AASB 1038, which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle. These standards include amendments to standards and the related basis for conclusions and guidance made during the IASB's Annual Improvement process. These amendments have not yet been adopted by the AASB.

AASB 1031 'Materiality' and consequential amendments AASB 2013-9 Part B. The revised AASB 1031 is an interim standard that cross references to other standards and the Framework (issued in December 2013) that contains guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all standards and interpretations have been removed.

Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of certain methods to calculate depreciation is not appropriate.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

(iii) Applicable to the Company for the year commencing after 1 October 2015:

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 changes in the way that the Company accounts for financial instruments. The standard is effective for the Company in the year commencing 1 October 2015, however early adoption is permitted. The impact of AASB 9 on the Company's financial statements has not yet been assessed. It is expected that the IASB will release IFRS 9 'Financial Instruments' in 2014 which will include new requirements for impairment and hedge accounting. The changes arising from applying these standards are likely to affect the Company's accounting for its financial instruments.

IFRS 15 'Revenue from Contracts with Customers' establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five step model to be applied to all contracts with customers. The impact of this standard is still being assessed.

(d) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(e) Rounding of amounts

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

(f) Foreign currency translation

Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the Statement of comprehensive income. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(g) Principles underlying conduct of life insurance business

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

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

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

(h) Revenue recognition

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

(i) Allocation of profit

Life insurance contracts

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

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

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

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

Life investment contracts

There is no premium revenue in respect of investment contracts. Amounts received from policyholders in respect of investment contracts comprise:

- Origination fees and ongoing investment manager fees. See accounting policy *Fees for management services rendered*
- Amounts credited directly to investment contract liabilities. See accounting policy *Life Investment Contract Liabilities*

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

Premium and related revenue

Premiums are separated into their revenue and deposit components. Premium amounts earned by bearing insurance risks are recognised as revenue. Other premium amounts received, net of initial fee income, which are akin to contributions, are recognised as an increase in policy liabilities.

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

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

(j) Investment revenue

Dividends, distributions and interest income are brought to account on an accruals basis when the Company obtains control of the right to receive the income. Net realised gains and losses and changes in the measurement of fair value in respect of all investments recognised at fair value are recognised in profit or loss in the period in which they occur.

(k) Claims

Life insurance contracts

Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim. Claims are separated into their expense and liability components.

Claims incurred that relate to providing services and bearing risks, including protection business, are treated as expenses and recognised on an accruals basis. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

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

There are no claims expenses in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are akin to investment withdrawals and are recognised as a reduction in policy liabilities.

(l) Fees for management services rendered

Fees are charged to customers in connection with investment contracts and other financial services contracts. 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.

(m) 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 to NWMS and distribution allowance to GWMAS for these services.

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

(n) Income tax

Current income tax

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

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% (2013: 15%);
- annuity policies – 0% (2013: 0%); or
- other policies – 30% (2013: 30%).

The shareholder's fund and fee income is taxed at the company rate of 30% (2013: 30%).

Deferred income tax

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and for unused tax losses. Deferred income tax is determined using tax rates (and laws) that have been enacted or 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.

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

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

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

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

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 tax incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the tax 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 tax recoverable from, or payable to, the ATO is included as a receivable or payable in the Balance sheet. Cash flows are included in the Statement of cash flows on a gross basis. The tax 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.

(o) Cash and cash equivalents

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

(p) Financial assets

Recognition and derecognition of financial instruments

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

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

Offsetting

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

Investments in financial assets measured at fair value through profit or loss

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

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 Balance sheet 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.

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.

Assets backing life insurance and life investment contracts

All financial assets within the Company's statutory funds are deemed to back life insurance business and are classified at fair value through profit and loss.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

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.

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

(q) 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 (2013: 6 years). Customer contracts are amortised over 8 years (2013: 8 years).

(r) Impairment of assets

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

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 of an asset is the higher of its fair value less cost to sell or its value in use.

(s) 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. Given the short term nature of most receivables, the recoverable amount approximates fair value.

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.

(t) Life policy liabilities

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

Life insurance contract liabilities

Life insurance contract liabilities are typically determined using a projection method, whereby estimates of policy cash flows are projected into the future using best estimate assumptions and discounted back to the present valuation date. 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 least annually.

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

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

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

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

Life investment contract liabilities

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

Policyholder retained profits

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

Basis of expense apportionment

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

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

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

(u) 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. Provisions are not discounted to the present value of the expected net future cash flows except where the time value of money is material.

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

(v) Payables

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

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

(w) 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.

(x) Significant accounting judgements, estimates and assumptions

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

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

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

Fair value measurement

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

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

1 Significant accounting policies (continued)

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

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

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

Life insurance policyholder liabilities

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

Subsidiaries in which the Company holds less than a majority of voting rights

The Company may own less than 50% of the units in underlying funds, however, since the remaining units are widely dispersed no other investor is deemed to have control. Therefore, where economic interest in the underlying funds exceeds 35%, the fund is considered to be in control.

Note 16 *Interests in Subsidiaries and Other Entities* provides details on the Company's subsidiaries, including the proportion of voting rights held by the Company.

Assessment of interests in structured entities

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

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

Refer to Note 16 *Interests in Subsidiaries and Other Entities* for further information on structured entities.

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

2 Revenue

	2014	2013
	\$m	\$m
Premium and related revenue		
Total life insurance and investment contract premium received and receivable	12,778	8,685
Less: Amount recognised as a change in policy liabilities	(11,053)	(7,070)
Life insurance contract premium revenue	1,725	1,615
Less: Outwards reinsurance expense	(155)	(136)
	1,570	1,479
Fee revenue		
Investment management and origination fees	576	544
Investment revenue		
Dividends and distributions	1,414	1,190
Interest revenue	748	944
Other income from investments held at fair value through profit or loss		
Net realised gains/(losses)	1,868	(883)
Net unrealised gains	2,167	8,556
	6,197	9,807
Other operating revenue		
Other revenue	22	16

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

3 Expenses

	2014 \$m	2013 \$m
Claims expense		
Total life insurance and investment contract claims paid and payable	10,885	9,309
Less: Amount recognised as a change in policy liabilities	(9,802)	(8,270)
Life insurance contract claims expense	1,083	1,039
Less: Reinsurance recoveries	(143)	(130)
	940	909
Operating expenses		
Policy acquisition expenses - life insurance contracts		
Commissions	63	72
Other	77	84
Policy acquisition expenses - life investment contracts		
Commissions	184	169
Other	11	29
Policy maintenance expenses - life insurance contracts		
Commissions	175	157
Other	180	171
Policy maintenance expenses - life investment contracts		
Commissions	74	88
Other	170	150
Investment management expenses	35	29
Other operating expenses	78	34
	1,047	983
Analysis of expenses by nature		
Amortisation expense	36	18
Commissions	496	486
Investment management expenses	35	29
Other operating expenses	480	450
	1,047	983

MLC Limited**Financial Report for the year ended 30 September 2014****Notes to the financial statements****4 Income tax**

	2014	2013
	\$m	\$m
(a) Income tax expense:		
Current tax		
Current income tax charge / (benefit)	96	(75)
Amounts in relation to prior years	(3)	1
Deferred tax - temporary differences	113	693
Total income tax expense	206	619

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

	2014	2013
	\$m	\$m
Profit before income tax	395	862
Prima facie income tax expense at 30% (2013: 30%)	119	259
Add/(deduct) tax effect of amounts not deductible/(assessable)		
Amounts in relation to prior years	(3)	1
Tax expense attributable to policyholders	98	364
Other	(8)	(5)
Total income tax expense	206	619

(c) Deferred tax

Deferred tax assets

Provisions

	37	10
	37	10

Deferred tax assets of \$139m (2013: \$149m) 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.

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

4 Income tax (continued)

	2014 \$m	2013 \$m
Deferred tax liabilities		
Unrealised investment gains	836	688
Intangible assets	6	15
	842	703

(d) Tax consolidation

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

	2014 \$m	2013 \$m
Total (decrease)/increase in intercompany assets of the Company	(131)	122
Total (increase)/decrease in intercompany liabilities of the Company	(4)	83

5 Dividends paid and proposed

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

	2014 \$m	2013 \$m
Dividends on ordinary shares:		
Final dividend declared in respect of the year ended 30 September 2013: \$0.18 per share (2012: \$0.15 per share)	360	311
Interim dividend declared in respect of the year ended 30 September 2014: \$0.06 per share (2013: \$0.02 per share)	124	44
Total dividends paid by the Company during the year	484	355

Final dividend

The directors have not declared a final dividend in respect to the financial year 2014.

Australian franking credits

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

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

6 Financial assets

	2014	2013
	\$m	\$m
(a) Financial assets at fair value through profit or loss		
Equity securities		
Equity securities held directly	197	223
Equity securities held indirectly via unit trusts	46,235	42,728
	46,432	42,951
Interest bearing securities		
Interest bearing securities held directly	2,417	2,299
Interest bearing securities held indirectly via unit trusts	19,911	16,883
	22,328	19,182
Property securities		
Property securities held indirectly via unit trusts	3,617	2,994
Derivatives		
Derivatives held directly	(130)	98
Total financial assets at fair value through profit or loss	72,247	65,225

Financial assets at fair value through profit or loss of \$9,584m (2013: \$10,157m) are expected to be recovered within 12 months.

	2014	2013
	\$m	\$m
(b) Loans and other receivables		
Investment income accrued and receivable	29	33
Outstanding premiums	74	76
Related party receivables:		
Ultimate parent entity - tax related	365	496
Commonly controlled entities	4	3
Unsettled investment transactions	14	9
Loans on policies	13	16
Trade and other debtors	141	121
Total loans and other receivables	640	754

Loans and other receivables of \$563m (2013: \$670m) are expected to be settled within 12 months.

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

7 Intangible assets

	2014 \$m	2013 \$m
Book of Advisers		
At cost	34	34
Deduct: accumulated amortisation	(11)	(6)
Total Book of Advisers	23	28
Customer Contracts		
At cost	100	100
Deduct: accumulated amortisation	(80)	(50)
Total Customer Contracts	20	50
Total Intangible Assets	43	78

Reconciliation of movements in intangible assets

Book of Advisers		
Balance at beginning of year	28	34
Additions	-	-
Disposals	-	-
Amortisation	(5)	(6)
Balance at the end of the year	23	28
Customer Contracts		
Balance at beginning of year	50	62
Additions	-	-
Disposals	-	-
Amortisation	(30)	(12)
Balance at the end of the year	20	50

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

8 Payables

	2014 \$m	2013 \$m
Related party payables		
Ultimate parent entity - tax related	12	8
Ultimate parent entity - other	-	1
Commonly controlled entities	4	6
Policy claims payable	118	116
Accrued expenses	82	66
Unsettled investment transactions	-	2
Trade and other creditors	56	93
Total payables	272	292

All payables are expected to be settled within 12 months (2013: all)

9 Provisions

Superannuation contributions tax	(4)	77
Other	65	20
Total provisions	61	97

All provisions are expected to be settled within 12 months.

Reconciliations of movements in provisions

(i) Superannuation contributions tax

Balance at the beginning of the year	77	190
Provision made	231	177
Amounts used	(312)	(290)
Balance at the end of the year	(4)	77

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

	2014 \$m	2013 \$m
Balance at the beginning of the year	-	5
Provision released	-	(5)
Balance at the end of the year	-	-

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

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

9 Provisions (continued)

(iii) Other

	2014	2013
	\$m	\$m
Balance at the beginning of the year	20	9
Provision made	52	16
Provision released	(5)	(5)
Payments made	(2)	-
Balance at the end of the year	65	20

10 Policy liabilities

Life insurance contracts

Best estimate liabilities

Value of future policy benefits	9,231	8,984
Value of future expenses	1,782	1,333
Future charges for acquisition costs	(27)	(24)
Value of future revenues	(11,227)	(10,223)
Total best estimate liabilities for life insurance contracts	(241)	70

Value of future profits

Value of future policyholder bonuses	294	308
Value of future shareholder profit margins	2,208	1,775
Total value of future profits	2,502	2,083
Policy liabilities for life insurance contracts net of reinsurance	2,261	2,153
Policy liabilities ceded under reinsurance	353	324
Policy liabilities for life insurance contracts	2,614	2,477

Life investment contracts

Policy liabilities for life investment contracts	69,224	62,098
Total policy liabilities	71,838	64,575

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

10 Policy liabilities (continued)

In respect of life insurance contracts with a discretionary participating feature, the total value of declared bonuses is \$39m (2013: \$46m). In respect of life insurance contracts with a discretionary participating feature, there are \$1,281m (2013: \$1,584m) of liabilities that relate to guarantees. In respect of life investment contracts with a non-participating feature, there are \$247m (2013: nil) of liabilities that relate to guarantees. This was reclassified to Investment contracts as at 30 September 2014. In respect of investment contracts, there are \$3,481m (2013: \$3,882m) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	2014 \$m	2013 \$m
Life insurance contract liabilities		
Balance at the beginning of the year	2,477	2,325
Increase reflected in the Statement of comprehensive income	397	152
Transfer from life insurance liabilities to life investment liabilities	(260)	-
Balance at the end of the year	2,614	2,477
Life investment contract liabilities		
Balance at the beginning of the year	62,098	54,300
Increase reflected in the Statement of comprehensive income	5,615	9,002
Transfer from life insurance liabilities to life investment liabilities	260	-
Premiums recognised in policy liabilities	11,053	7,067
Claims recognised in policy liabilities	(9,802)	(8,271)
Balance at the end of the year	69,224	62,098
Total policy liabilities at end of year	71,838	64,575
Liabilities ceded under reinsurance		
Balance at the beginning of the year	(324)	(268)
Termination of reinsurance arrangements	-	-
Decrease in reinsurance assets reflected in the Statement of comprehensive income	(29)	(56)
Balance at the end of the year	(353)	(324)
Total policy liabilities at the end of the year	71,485	64,251

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 \$1,026m for the insurance business (2013: \$1,094m) and \$8,558m for the investments business (2013: \$9,063m).

The effective date of the Financial Condition Report is 30 September 2014. 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 Insurance Act 1995* (Cth) and with the standards set out by the Australian Prudential Regulation Authority (APRA).

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

10 Policy liabilities (continued)

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

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

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

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

10 Policy liabilities (continued)

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

	Statutory Funds						Shareholder Fund	Total
	Fund No 1	Fund No 2	Fund No 3	Fund No 4	Fund No 5	Fund No 6		
At 30 September 2013 (\$m)								
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

(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.

(ii) Types of business and profit carriers

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

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

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

10 Policy liabilities (continued)

(b) Actuarial methods and assumptions (continued)

(iii) Discount rates

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

Discount rates	2014	2013
Traditional business - participating		
Ordinary ⁽¹⁾	4.0%	4.3%
Superannuation ⁽¹⁾	4.8%	5.2%
Term life and disability income (excluding claims in payment) insurance ⁽²⁾	3.9%	2.8-4.9%
Disability claims in payment ⁽²⁾	3.8%	4.7%
Annuity business ⁽²⁾	3.0-3.8%	3.4-4.5%

(1) After tax.

(2) Before tax

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase with inflation of 2.6% (2013: 2.6%) per annum. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the assumed growth in the consumer price index. The indexation applied may be subject to a specified minimum rate. The policy liabilities assume a future take-up of these indexation options based on the Company's recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability income and salary continuance claims is 2.4% (2013: 2.4%).

(v) Rates of taxation

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

10 Policy liabilities (continued)

(b) Actuarial methods and assumptions (continued)

(vi) Mortality and morbidity

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

Traditional business	Male: 75% of IA 95-97 ⁽¹⁾ Female: 85% of IA 95-97 ⁽¹⁾
Term life insurance	Male: 70%-90% of FSC 04-08 ⁽²⁾ with adjustments for anti-selection Female: 70%-90% of FSC 04-08 ⁽²⁾ with adjustments for anti-selection
LoanCover / EasyCover term life insurance	Male/Female: 90% of FSC 04-08 ⁽²⁾ with adjustments for anti-selection
Disability income insurance	Male: Rates similar to 115%-135% of incidence and 20-80% of termination rates of IAD 89-93 ⁽³⁾ Female: Rates similar to 75% of incidence and 20-80% of termination rates of IAD 89-93 ⁽³⁾
LoanCover / EasyCover disability income insurance	Male/Female: Rates similar to 110%-180% for non-smokers and 135-225% for smokers of incidence and 20%-80% of termination rates of IAD 89-93 ⁽³⁾
Annuity business	Male: 75-125% IML00Ult(Base) ⁽⁴⁾ Female: 75-125% IFL00Ult(Base) ⁽⁴⁾ The mortality improvement factors are based on the CMI 2013 improvement factors ⁽⁵⁾

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

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

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

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

(5) The CMI 2013 improvement factors are a series of mortality improvement rates developed by the UK's Institute and Faculty of Actuaries.

(vii) Lapses

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

Product type	2014	2013
Traditional business - participating		
Ordinary	6%	6%
Superannuation	7%	7%
Term life insurance	10 - 15%	11 - 13%
Disability income insurance	10 - 15%	11 - 13%
Loan cover / Easy cover term life and disability insurance	17 - 35%	17 - 35%
National credit card	17 - 35%	17 - 35%

(viii) Surrender values

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

10 Policy liabilities (continued)

(b) Actuarial methods and assumptions (continued)

(ix) Future participating benefits

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

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

	Ordinary business		Superannuation business	
	2014	2013	2014	2013
Bonus rate on sum assured	0.4%	0.4%	1.3%	0.3%
Bonus rate on existing bonuses	0.4%	0.4%	1.3%	0.3%

(c) Effects of changes in actuarial assumptions from:

Assumption category	30 September 2013 to 30 September 2014		30 September 2012 to 30 September 2013	
	Increase / (decrease) in future profit margins \$m	Increase / (decrease) in net policy liabilities \$m	Increase / (decrease) in future profit margins \$m	Increase / (decrease) in net policy liabilities \$m
Inflation	-	(1)	-	(4)
Market related changes to discount rates	(14)	125	2	(79)
Non-market related changes to discount rates	13	20	-	-
Mortality and morbidity	211	62	(472)	83
Lapse rates	(102)	(20)	(196)	-
Maintenance expenses	(202)	38	(24)	-
Other assumptions	345	(34)	48	-
Total	251	190	(642)	-

The numbers in the above table are net of reinsurance.

(d) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of changes in the key underlying variables such as mortality, morbidity, lapses and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk. The table below illustrates how changes in key assumptions would impact the reported profit and policy liabilities of the Company in respect of life insurance business. Sensitivity to changes in the discount rate are shown in Note 18 *Risk Management and Financial Instruments Information* in accordance with AASB 7 *Financial Instruments: Disclosures*.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

10 Policy liabilities (continued)

(d) Sensitivity analysis (continued)

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

Change in variable	2013		2013		
	Gross (before reinsurance)		Net (after reinsurance)		
	Profit/ (loss) and share- holders equity \$m	Policy liabilities \$m	Profit/ (loss) and share- holders equity \$m	Policy liabilities \$m	
Discount rate	1% increase in discount rate	3	(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
Lapse rates	10% increase in lapse rates	-	-	(1)	1
Maintenance expenses	10% increase in maintenance expenses	(3)	4	(8)	11

(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

MLC Limited
Financial Report for the year ended 30 September 2014
Notes to the financial statements

11 Policyholder retained profits

	2014 \$m	2013 \$m
Balance at the beginning of the year	105	111
Decrease in policyholder retained profits recognised in Statement of comprehensive income	-	(6)
Balance at the end of the year	105	105

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

12 Contributed equity
Issued and paid-up share capital

2,045,286,160 (2013: 2,045,286,160) ordinary shares, fully paid

	2014 \$m	2013 \$m
	2,357	2,357

Ordinary shares

There were no movements (2013: Nil) 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. The Company does not have authorised share capital or par value in respect of its issued shares.

13 Capital Reserve

	2014 \$m	2013 \$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

	2014 \$m	2013 \$m
Balance at the beginning of the year	433	545
Net profit attributable to owners of the Company	189	243
Total available for appropriation	622	788
Dividends paid	(484)	(355)
Balance at the end of the year	138	433

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

15 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 Balance sheet as follows:

	2014 \$m	2013 \$m
Cash at bank and cash equivalents	2,246	2,124

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

	2014 \$m	2013 \$m
Profit after tax	189	243
Add non-cash items:		
Amortisation	36	14
Changes in assets and liabilities:		
Increase in financial assets at fair value through profit and loss	(7,311)	(8,297)
Decrease/(increase) in loans and other receivables	243	(242)
(Increase)/decrease in deferred tax assets	(27)	84
Increase in gross policy liabilities	7,096	7,742
Increase in gross policy liabilities ceded under reinsurance	168	182
Increase in policyholder retained profits	-	(6)
Increase in deferred tax liabilities	149	610
Increase/(decrease) in provisions and payables	62	(155)
Net cash from operating activities	605	175

16 Interests in subsidiaries and other entities

Interest in subsidiaries

The following table presents the material controlled entities of the Company as at 30 September 2014 and 30 September 2013:

Entity name	Principal place of business and country of incorporation	Ownership interest and proportion of voting rights		Investment	
		2014 %	2013 %	2014 \$m	2013 \$m
Plum Financial Services Limited	Australia	100	100	103	103
MLC Nominees Pty Limited	Australia	100	100	5	5
				108	108

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

16 Interests in subsidiaries and other entities (continued)

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

Interest in unconsolidated structured entities

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

Investment funds

The Company has interests in managed investment funds and property funds which includes holding units, and receiving fees for services related to fund management activities.

Limited Partnerships

The Company invests in limited partnerships. These investments back policy liabilities in statutory funds 2 and 4 and are recognised as financial assets through profit and loss. The purpose of the partnerships is to identify, research, make and monitor the progress of any purchases, and sell, realise, exchange or distribute investments principally in unquoted shares and securities, with the principal objective of providing higher relative overall rate of returns by means of long-term capital growth.

Interests held

Interests in structured entities include, but are not limited to, debt and equity investments, commitments and fees from investment structures that expose the Company to the risks of the entity.

The Company makes commitments to fund partnership investments in the normal course of business. The commitments made to the limited partnerships, directly and indirectly, are included in Note 17 *Commitments, Contingencies and Fiduciary Activities*. The Company anticipates that these amounts will be invested in partnerships over the next five years. Excluding these commitments the company did not provide, or intend to provide, financial or other support to investees designated as unconsolidated structured investment entities.

Involvement is considered on a case by case basis, taking into account the nature of the entity's activity. This excludes involvements that exist only because of typical customer supplier relationships.

The table below shows the carrying value and maximum exposure to loss of the interests in unconsolidated structured entities as at 30 September:

	2014	
	Carrying Amount	Maximum Exposure
	\$m	\$m
Investment Funds	5,811	6,767
Limited Partnerships	765	841
Total	6,576	7,608

The maximum exposure to loss from the Company's interest in unconsolidated structured entities represents the maximum loss that the Company could incur as a result of the Company's involvement with unconsolidated structured entities regardless of the probability of the loss being incurred. The maximum exposure to loss of the investment funds is equal to the carrying amount. The maximum exposure to loss relating to limited partnership interests is equal to the carrying amount plus any unfunded commitments of the company. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee.

For the year ended 30 September 2014, the Company did not provide support, financial or otherwise, to an unconsolidated structured entity when the Company was not contractually obligated to do so, nor has the Company an intention to do so in the future.

Income earned from interests in unconsolidated structured entities primarily resulted from interest income as well as mark-to-market movements, fees and commission income.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

17 Commitments, contingencies and fiduciary activities

(a) Investment commitments

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

	2014	2013
	\$m	\$m
Investment commitments	1,061	1,100

(b) Contingencies

Guarantees

A guarantee to the value of \$5 million (2013: \$5 million) has been provided by NAB to the Company and held in favour of a related party, PFS Nominees Pty Limited (PFS). The purpose of this guarantee is to meet the requirements of PFS's RSE Licence.

Litigation

The Company is a defendant from time to time in legal proceedings arising from the conduct of 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 \$11m (2013: \$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 regulatory capital requirements are met. Shareholders in all Statutory Funds other than Statutory Fund 5 and participating policyholders can receive a distribution when regulatory capital requirements are met, whilst shareholders in Statutory Fund 5 can only receive a distribution following policyholders' distributions and are subject to shareholder retained profits exceeding a certain percentage of policyholder retained profits.

18 Risk management and financial instruments information

Risk management

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

Risks and mitigation

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

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

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

Derivative financial instruments

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

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

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

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

As at 30 September 2014, the gross derivative amount recorded in Financial assets at fair value through profit or loss was \$(130)m (2013: Financial assets at fair value through profit or loss of \$98m) which is made up of derivative liabilities \$130m and derivative assets of \$nil (2013: derivative assets of \$98m and derivative liabilities of \$nil). These derivative liability amounts had associated financial collateral pledged of \$1.26m (2013: \$0.4m of collateral received for derivative assets).

(a) Insurance risk

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

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

(a) Insurance risk (continued)

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

(b) Market Risk

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

(i) Interest rate risk

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

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

The exposure to the Company comes primarily from the risk portfolio and the annuity portfolio in Statutory Fund No. 1 and the participating business in Statutory Fund No. 5.

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

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	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
+ 100 basis points	(9.7)	(16.3)	(9.7)	(16.3)
- 100 basis points	6.2	16.5	6.2	16.5

This analysis assumes that all other variables remain constant. The risks faced and methods used for the sensitivity analysis has changed from the prior period. For the prior period, the interest rate sensitivity analysis for Statutory fund 1 assumed a -100 basis point change in interest rates is equivalent to a +100 basis point change in interest rates but in opposite directions. The methodology in the current period for -100 basis points change does not assume this but instead the actual impact of changing the interest rates by -100 basis points is quantified.

(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.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

(ii) Equity and other price risk (continued)

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.

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.

<i>Change in equity prices</i>	Impact on profit after tax		Impact on equity	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
10% increase	16.4	14.4	16.4	14.4
10% decrease	(16.4)	(14.4)	(16.4)	(14.4)

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.

(iii) Foreign currency risk

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

The Company's financial assets are primarily denominated in the same currency as its policy liabilities. Currency forward foreign exchange contracts are entered into 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.

<i>Change in currency rates</i>	Impact on profit after tax		Impact on equity	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
10% increase in foreign currency rates	10.1	8.8	10.1	8.8
10% decrease in foreign currency rates	(10.1)	(8.8)	(10.1)	(8.8)

Currency sensitivity includes the impact of hedging. This analysis assumes that all other variables remain constant. The types of risks faced and methods used for the sensitivity analysis are consistent for both periods. Statutory fund 5 is exposed to international assets and is included in the current period and restated prior period numbers. It was not included in the prior period numbers.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

(c) Credit Risk

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

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

The Company minimises concentrations of credit risk by undertaking transactions with a 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 Balance sheet.

Credit quality

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

Credit quality (continued)

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 2014						
Financial assets - at fair value through profit or loss	2,116	-	-	1,830	68,301	72,247
Loans and other receivables	368	-	-	272	-	640
	2,484	-	-	2,102	68,301	72,887
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

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

(d) Liquidity Risk

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

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

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

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

Maturity profiles

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

	0-3 months	3-12 months	1-5 years	Maturity > 5 years	Investment Linked	No specific maturity	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
30 September 2014							
Payables	259	13	-	-	-	-	272
Policy liabilities	296	320	66	7	68,276	2,873	71,838
	555	333	66	7	68,276	2,873	72,110
30 September 2013							
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

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

(e) Capital management

The Company's key objectives and principles for managing capital are to satisfy regulatory requirements, 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. Refer to Note 10(a).

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

(f) Fair Value Measurements

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

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

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

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

	Fair value measurement as at 30 September 2014				Fair value measurement as at 30 September 2013			
	Quoted market prices (Level 1) \$m	Valuation techniques (observable inputs) (Level 2) \$m	Valuation techniques (significant non-observable inputs) (Level 3) \$m	Total \$m	Quoted market prices (Level 1) \$m	Valuation techniques (observable inputs) (Level 2) \$m	Valuation techniques (significant non-observable inputs) (Level 3) \$m	Total \$m
Financial assets								
Equity securities	312	43,482	2,638 ⁽¹⁾	46,432	500	39,578	2,873 ⁽¹⁾	42,951
Debt securities	4,082	18,246	-	22,328	3,254	15,928	-	19,182
Property securities	-	3,617	-	3,617	-	2,994	-	2,994
Derivatives	-	(130)	-	(130)	-	98	-	98
Total financial assets measured at fair value	4,394	65,215	2,638	72,247	3,754	58,598	2,873	65,225
Financial liabilities								
Life investment contract liabilities	-	69,224	-	69,224	-	62,098	-	62,098
Total financial liabilities measured at fair value	-	69,224	-	69,224	-	62,098	-	62,098

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

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

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

18 Risk management and financial instruments information (continued)

(f) Fair Value Measurements (continued)

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

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

	Year to September 2014	Year to September 2013
	Assets	Assets
	Equity securities	Equity securities
	\$m	\$m
Balance at the beginning of period	2,873	2,638
Total gains/(losses):		
Investment revenue	403	454
Purchases and issues	169	49
Sales and settlements	(807)	-
Transfers out of Level 3	-	(268)
Balance at the end of period	2,638	2,873

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.

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

19 Other life insurance disclosures

	2014 \$m	2013 \$m
(a) Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	117	159
Experience loss	(44)	(85)
Effects of changes to assumptions	(38)	(42)
Reversal of capitalised losses/(losses recognised)	(23)	(16)
Profit after income tax - Life insurance contracts	12	16
Life investment contracts		
Fees earned	182	146
Profit after income tax – life investment contracts	182	146
Investment earnings on shareholder retained profits and capital	26	84
Loss from Shareholder Fund	(31)	(3)
(Loss)/Profit after income tax – other	(5)	81
Profit after income tax	189	243
(b) Reconciliation to Life Act profit		
Profit after income tax	189	243
Bonuses provided for or paid in the current year		
Interim and terminal bonus on claims paid	24	24
Declared bonus on in force policies	15	22
Decrease in unvested policyholder benefits	-	(6)
Life Act profit after income tax	228	283
(c) Reconciliation of Life Act retained earnings		
Life Act retained earnings at the beginning of the year	304	446
Life Act profit after income tax	228	283
Dividend paid	(484)	(355)
Provision for bonuses to participating policyholders	(39)	(70)
Life Act retained earnings at the end of the year	9	304

MLC Limited

Financial Report for the year ended 30 September 2014

Notes to the financial statements

19 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 2014

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

MLC Limited

Financial statements for the year ended 30 September 2014

Notes to the financial statements

19 Other life insurance disclosures (continued)

30 September 2013

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

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

30 September 2014

	Statutory Funds						Shareholder Fund \$m	Total Company \$m	
	Fund 1 \$m	Fund 2 \$m	Fund 3 \$m	Fund 4 \$m	Fund 5 \$m	Fund 6 \$m			All funds \$m
Investment assets	1,952	56,307	390	11,604	1,993	1	72,247	-	72,247
Policy liabilities ceded	353	-	-	-	-	-	353	-	353
Other assets	1,368	831	22	322	230	-	2,773	301	3,074
Total assets	3,673	57,138	412	11,926	2,223	1	75,373	301	75,674
Policy liabilities									
Life insurance contracts	985	-	-	-	1,629	-	2,614	-	2,614
Life investment contracts	689	56,225	373	11,677	260	-	69,224	-	69,224
Other liabilities	69	698	29	184	272	(4)	1,248	32	1,280
Total liabilities	1,743	56,923	402	11,861	2,161	(4)	73,216	32	73,118
Net assets	1,930	215	10	65	62	5	2,287	269	2,556
Contributed equity	-	-	-	-	-	-	-	2,357	2,357
Capital transfer between funds	1,837	140	6	31	15	1	2,030	(2,030)	-
Capital reserve	-	-	-	-	-	-	-	61	61
Retained profits	93	75	4	34	47	4	257	(119)	138
Total equity	1,930	215	10	65	62	5	2,287	269	2,556
Transfer from/(to) funds	(103)	(251)	(12)	(44)	(31)	4	(437)	437	-

MLC Limited

Financial statements for the year ended 30 September 2014

Notes to the financial statements

19 Other life insurance disclosures (continued)

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

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
Transfers from/(to) funds	(364)	(117)	(3)	(9)	-	-	(493)	493	-

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

	2014 \$	2013 \$
Short term employee benefits	2,618,752	2,452,574
Post employment benefits	76,937	79,491
Termination benefits	12,590	105,203
Share based payment	1,072,432	1,055,005
Total	3,780,711	3,692,273

MLC Limited

Financial statements for the year ended 30 September 2014

Notes to the financial statements

20 Related party disclosures (continued)

Non-director related parties

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

Management services

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

Distribution allowance

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

Advisory services

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

Commission services

The Company pays 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.

	2014 \$'000	2013 \$'000
The aggregate amounts paid to/(received from) related parties of the Company		
Ultimate parent entity		
NAB - commission services	2,058	2,766
Common controlled entities		
MLC Investments Limited - managed assets	(13,082)	(11,581)
GWM Adviser Services Limited - distribution allowance	70,149	73,303
JANA Corporate Investment Services Limited – advisory services (formerly National Corporate Investment Services Limited)	(6,976)	(5,334)
JANA Investment Advisors Pty Limited – advisory services	22,616	16,004
National Wealth Management Services Limited – management services	326,664	332,944
	<u>401,429</u>	<u>408,102</u>

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 2014, the Company held \$143 million (2013: \$182 million) of shareholder bank balances that were part of the interest offset arrangement.

MLC Limited

Financial statements for the year ended 30 September 2014

Notes to the financial statements

21 Remuneration of external auditor

	2014	2013
	\$	\$
Total amounts paid or due and payable to Ernst & Young Australia⁽¹⁾:		
Audit of the financial statements	1,117,446	1,055,184
Regulatory services	67,500	199,700
Other services	59,600	26,993
	<u>1,244,546</u>	<u>1,281,877</u>

⁽¹⁾ Amounts exclude goods and services tax.

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

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

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

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

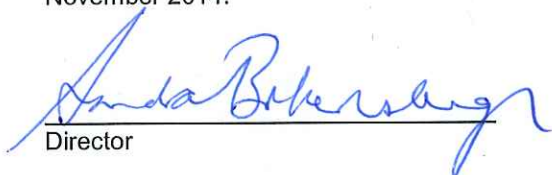
Financial statements for the year ended 30 September 2014

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 2014 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date;
 - (ii) complying with Accounting Standards in Australia, as set out in Note 1 to the financial statements, and the *Corporations Regulations 2001* (Cth); and
 - (iii) complying with the requirements of the *Life Insurance Act 1995* (Cth); and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made and signed in Sydney in accordance with a resolution of Directors this 7th day of November 2014.



Director



Director

MLC Limited

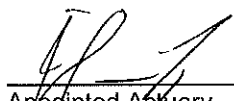
Financial statements for the year ended 30 September 2014

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 7th day of November 2014.



Appointed Actuary
J. Lang

Independent auditor's report to the members of MLC Limited

We have audited the accompanying financial report of MLC Limited (the "Company"), which comprises the balance sheet as at 30 September 2014, 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.

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

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

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

Independence

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



Opinion

In our opinion:

- a. the financial report of MLC Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's financial position as at 30 September 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Ernst & Young
Ernst & Young

A handwritten signature in black ink, appearing to read 'G. McKenzie'.

Graeme McKenzie
Partner
Sydney
7 November 2014