The National Mutual Life Association of Australasia Limited

ABN 72 004 020 437

Directors' report and Financial report for the year ended 31 December 2016

Directors' Report

for the year ended 31 December 2016

The directors of The National Mutual Life Association of Australasia Limited ('NMLA' or 'the company') present their report on the company for the financial year ended 31 December 2016.

NMLA is a company limited by shares and is incorporated and domiciled in Australia. AMP AAPH Limited is the company's parent entity, and AMP Limited is the ultimate parent entity.

The Registered Office of the company is 33 Alfred Street, Sydney, NSW 2000.

Directors

The directors of the company during the year and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise.

Trevor Matthews	Chairman, Non-executive Director	Appointed Chairman 12 May 2016
Megan Beer	Managing Director	Appointed 29 November 2016
Craig Meller	Executive Director	
Anthony Coleman	Non-executive Director	
Diana Eilert	Non-executive Director	
Andrew Harmos	Non-executive Director	
Holly Kramer	Non-executive Director	Appointed 12 May 2016
Peter Shergold	Non-executive Director	
Mike Wilkins	Non-executive Director	Appointed 21 October 2016
Catherine Brenner	Chairman, Non-executive Director	Resigned 12 May 2016
Pauline Blight-Johnston	Managing Director	Resigned 29 November 2016

Principal activities

NMLA provides a range of products and services to customers in Australia and overseas, mainly New Zealand. These products and services are distributed through self-employed financial planners and advisers aligned with the AMP group. These products and services include superannuation, investments, retirement savings, income protection and life insurance. There have been no significant changes in the nature of these activities during the year.

Review of operations and results

The operating result for the year ended 31 December 2016 was a loss after tax of $139m (2015: $233m profit after tax).

Dividends and distributions

Details of the dividends and distributions paid are disclosed in Note 1.4 of the Financial report.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs during the financial year.

Events occurring after reporting date

On 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group.

The transfer was completed using a scheme ("Scheme") under Part 9 of the Life Insurance Act 1995 in Australia and s44-53 of the Insurance (Prudential Supervision) Act 2010 in New Zealand. The Scheme was approved by regulators in Australia and New Zealand and confirmed by the Federal Court of Australia.

The transfer involved all of the Australian and New Zealand life policies and insurance liabilities of NMLA, as well as certain assets and liabilities related to that business. Following the transfer, AMP Life assumes all rights and obligations of the transferred NMLA policies.

Assets of $13.4 billion and liabilities of $12.0 billion were transferred at their carrying values in NMLA immediately prior to the transfer. Because NMLA and AMPL have the same accounting policies for these assets and liabilities, there were no adjustments to the carrying values of the transferred assets and liabilities. NMLA and AMP Life have accounted for the transfer as equity transactions with their respective parents whereby the net assets decrease in NMLA and the net assets increase in AMP Life of $1.4 billion have been treated as changes in equity and there was no impact on profit and loss from the transfer.

On 3 February 2017, the board approved an $18m capital return to AMP AAPH Limited.

Other than the transfer of the Australian and New Zealand life insurance business, and the capital return, at the date of this report the directors are not aware of any matter or circumstance that has arisen since the reporting date that has significantly affected or may significantly affect the company's operations in future years, the results of those operations in future years or the company's state of affairs in future years, which is not already reflected in this report.

Likely developments

Information about any likely developments in the operations of the company and the expected results of those operations in future years, other than the transfer of operations referred to in Events occurring after reporting date above, has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the company.

Environmental regulation
NMLA believes that sound environmental management makes good business sense and creates value for our shareholders, customers, employees and the community.

As an investor, NMLA believes that the engagement with companies on environmental issues is an effective way to influence management practices for the benefit of customers and the environment.

In the normal course of business operations, NMLA is subject to a range of environmental regulations, of which there have been no material breaches during the year.

Duty of the directors under the *Life Insurance Act 1995*
The directors have complied with their duty, as prescribed by the *Life Insurance Act 1995*, to take reasonable care and use due diligence, to see that in the investment, administration and management of the assets of the NMLA statutory funds, the company gives priority to the interests of the policyholders over the interests of the shareholders.

Indemnification and insurance of directors and officers
Under its Constitution, the company indemnifies, to the extent permitted by law, all officers of the company, (including the directors), for any liability (including the costs and expenses of defending actions for an actual or alleged liability) incurred in their capacity as an officer of the company.

This indemnity is not extended to current or former employees of the AMP group against liability incurred in their capacity as an employee unless approved by the Board of AMP Limited. During or since the end of the financial year, no such indemnities have been provided.

During the financial year, AMP Limited agreed to insure all the officers of the company against certain liabilities as permitted by the Corporations Act. The insurance policy prohibits disclosure of the nature of the cover, the amount of the premium, the limit of liability and other terms.

AMP Group Holdings Limited ("AMPGH") has entered into a deed of indemnity and access with each director and secretary of the company. Each deed of indemnity and access provides that:

- these officers will have access to the books of the company for their period of office and for ten (and in certain cases, seven) years after they cease to hold office (subject to certain conditions); and

- AMPGH agrees to indemnify the officer, to the extent permitted by law, against any liability incurred by the officer in his or her capacity as a director or secretary of the company and of other AMP group companies.

Auditor's independence
The directors have obtained an independence declaration from the company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2016.

Rounding
In accordance with the ASIC Corporations Instrument 2016/191, amounts in this Directors' Report and the accompanying Financial Report have been rounded off to the nearest million Australian dollars, unless stated otherwise.

Signed in accordance with a resolution of the directors

Trevor Matthews	Megan Beer
Director	Director

Sydney, 8 February 2017

Building a better
working world

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Auditor's Independence Declaration to the Directors of the National Mutual Life Association of Australasia Limited

As lead auditor for the audit of AMP Life Limited for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

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

Ernst & Young

Kieren Cummings
Partner
8 February 2017

THE NATIONAL MUTUAL LIFE ASSOCIATION OF AUSTRALASIA LIMITED

ABN 72 004 020 437

FULL YEAR FINANCIAL REPORT

31 DECEMBER 2016

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Registered Office:
33 Alfred Street
Sydney NSW 2000 Australia

The National Mutual Life Association of Australasia, a company limited by shares, is incorporated and domiciled in Australia.

Statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 $m	2015 $m
Discontinued operations[1]			
Income and expenses of the shareholder and policyholders[2]			
Life insurance contract premium revenue	4.2	1,066	1,063
Life insurance claims recovered from reinsurers	4.2	91	85
Fee revenue	1.1	148	176
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss		709	629
Life insurance contract claims expenses	4.2	(790)	(763)
Life insurance contract premiums ceded to reinsurers	4.2	(120)	(116)
Fees and commission expenses	1.2	(181)	(178)
Other operating expenses	1.2	(251)	(228)
Finance costs		(6)	(6)
Change in policyholder liabilities			
- life insurance contracts	4.2	(453)	(24)
- investment contracts		(387)	(326)
Income tax credit (expenses)	1.3	30	(81)
(Loss) Profit for the year of discontinued operations		**(144)**	**231**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations			
- exchange gains (losses)		8	(3)
Total comprehensive income for the year of discontinued operations		**(136)**	**228**
Continuing operations			
Income and expenses of the shareholder and policyholders[2]			
Fee revenue	1.1	15	-
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss		6	4
Fees and commission expenses	1.2	(15)	-
Income tax credit (expenses)	1.3	(1)	(2)
(Loss) Profit for the year of continuing operations		**5**	**2**
Total comprehensive income for the year of continuing operations		**5**	**2**

1 *The company's Australian and New Zealand life insurance business transferred to AMP Life from 1 January 2017.*
As described in Note 6.6, *Events occurring after reporting date* , on 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group. This represents the substantial majority of the operations of NMLA up to 31 December 2016. Further financial information about the income and expenses for 2016 of the activities transferred are shown in Note 4.5(f), *Disaggregated information.*

2 Income and expenses include amounts attributable to the shareholder's interests and policyholders' interests in the life statutory funds. Amounts included in respect of the life statutory funds have a substantial impact on most of the Statement of comprehensive income lines, especially investment gains and losses and income tax expense. In general, policyholders' interests in the transactions for the year are attributed to them in the lines Change in policyholder liabilities.

Statement of financial position

as at 31 December 2016

	Note	2016 $m	2016 $m	2015 $m
		Continuing operations	Discontinued operations[1]	
Assets				
Cash and cash equivalents	6.1	38	110	183
Receivables	2.2	23	209	292
Intercompany tax receivable		61	10	18
Current tax assets		-	13	-
Investments in financial assets	2.1	22	12,488	12,686
Property, plant and equipment		-	1	1
Deferred tax assets	1.3	-	142	180
Reinsurance asset- ceded life insurance contracts	4.2	-	452	414
Intangibles - capitalised costs		-	-	1
Total assets of policyholders and the shareholder				
- Continuing operations		144		
- Discontinued operations			13,425	
Total assets of policyholders and the shareholder		**144**	**13,425**	**13,775**
Liabilities				
Payables	2.3	85	393	728
Intercompany tax payable		-	18	67
Current tax liabilities		-	-	3
Provisions		7	4	12
Derivative financial liabilities	2.1	-	103	92
Interest-bearing liabilities	3.2	-	85	85
Deferred tax liabilities	1.3	-	165	178
Life insurance contract liabilities	4.2	8	6,086	5,892
Investment contract liabilities		-	5,171	5,167
Total liabilities of policyholders and the shareholder				
- Continuing operations		100		
- Discontinued operations			12,025	
Total liabilities of policyholders and the shareholder		**100**	**12,025**	**12,224**
Net assets of the shareholder of The National Mutual Life Association of Australasia Limited		**44**	**1,400**	**1,551**
Equity				
Contributed equity	3.1	125	1,034	926
Reserves		39	(102)	(71)
Retained earnings		(120)	468	696
Total equity of the shareholder of The National Mutual Life Association of Australasia Limited				
- Continuing operations		44		
- Discontinued operations			1,400	
Total equity of the shareholder of The National Mutual Life Association of Australasia Limited		**44**	**1,400**	**1,551**

1. As described in Note 6.6, *Events occurring after reporting date*, on 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group. This represents the substantial majority of the operations of NMLA up to 31 December 2016. Further financial information about the income and expenses for 2016 of the activities transferred are shown in Note 4.5(f), *Disaggregated information*.

Statement of changes in equity

for the year ended 31 December 2016

	Note	Contributed equity $m	Foreign currency translation reserve $m	Retained earnings $m	Total equity $m
2016					
Balance at the beginning of the year		926	(71)	696	1,551
Profit (loss)		-	-	(139)	(139)
Other comprehensive income		-	8	-	8
Total comprehensive income		-	8	(139)	(131)
Ordinary share capital issued	3.1	233	-	-	233
Dividends paid - ordinary shares	1.4	-	-	(202)	(202)
Distributions paid - capital notes	1.4	-	-	(7)	(7)
Balance at the end of the year		**1,159**	**(63)**	**348**	**1,444**
2015					
Balance at the beginning of the year		916	(68)	643	1,491
Profit (loss)		-	-	233	233
Other comprehensive income		-	(3)	-	(3)
Total comprehensive income		-	(3)	233	230
Return of ordinary share capital	3.1	(90)	-	-	(90)
Capital notes issued	3.1	100	-	-	100
Dividends paid - ordinary shares	1.4	-	-	(179)	(179)
Distributions paid - capital notes	1.4	-	-	(1)	(1)
Balance at the end of the year		**926**	**(71)**	**696**	**1,551**

Statement of cash flows

for the year ended 31 December 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities[1]			
Cash receipts in the course of operations		1,809	1,558
Interest and other items of a similar nature received		66	71
Dividends and distributions received		123	63
Cash payments in the course of operations		(2,505)	(2,359)
Finance costs		(6)	(6)
Income tax paid		(64)	(96)
Cash flows used in operating activities	6.1	**(577)**	**(769)**
Cash flows from investing activities[1]			
Net proceeds from sale of :			
- investments in financial assets		516	874
Cash flows from investing activities		**516**	**874**
Cash flows from financing activities[1]			
Proceeds from the issue of share capital	3.1	233	100
(Payment) for the return of share capital	3.1	-	(90)
Dividends and distributions paid	1.4	(209)	(180)
Cash flows from / (used in) financing activities		**24**	**(170)**
Net decrease in cash and cash equivalents[1]		**(37)**	**(65)**
Cash and cash equivalents at the beginning of the year		192	256
Effect of exchange rate changes on cash and cash equivalents		2	1
Cash and cash equivalents at the end of the period	6.1	**157**	**192**

1. **The company's Australian and New Zealand life insurance business transferred to AMP Life from 1 January 2017.**
   As described in Note 6.6, *Events occurring after reporting date,* on 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group. This represents the substantial majority of the operations of NMLA up to 31 December 2016. Further financial information about the income and expenses for 2016 of the activities transferred are shown in Note 4.5(f), *Disaggregated information.* Cash flows relating to the continuing operations are immaterial.

About this report

(a) What's new in this report?

We have reviewed the content and structure of the financial report and identified opportunities to reduce complexity and to make it more relevant to stakeholders.

As part of this review we have made a number of changes to the financial report including:

- Removing immaterial disclosures that may undermine the usefulness of the financial report by distracting from important information,
- Disaggregating balances (including prior year comparatives) to show amounts separately on the Statement of comprehensive income and Statement of financial position, and
- Grouping the notes to the financial statements into six sections:
  1. Results for the year
  2. Investments and working capital
  3. Capital structure and financial risk management
  4. Life insurance and investment contracts
  5. Related party disclosures
  6. Other disclosures

Materiality
Information has only been included in the financial report to the extent it has been considered material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- The amount in question is significant because of its size or nature;
- It is important for understanding the results of NMLA;
- It helps explain the impact of significant changes in NMLA; and/or
- It relates to an aspect of NMLA's operations that is important to its future performance.

(b) Understanding The National Mutual Life Association of Australasia Limited financial report

The National Mutual Life Association of Australasia Limited ('NMLA or 'the company'), a company limited by shares, is incorporated and domiciled in Australia. This financial report includes financial statements for NMLA as a single entity only.

The business of NMLA is conducted through statutory funds and relates to the provision of wealth management and life insurance products to investors, referred to as policyholders. A large proportion of the investment assets of the statutory funds is held on behalf of policyholders. The corresponding liabilities to policyholders are classified as either life investment or life insurance contract liabilities.

Consolidated information has not been prepared to show the financial position and operations of NMLA and its controlled entities at, or during the year ended 31 December 2016 in accordance with exemptions available under Australian Accounting Standards. Consolidated information has been prepared and is available for the ultimate parent, AMP Limited, and its controlled entities.

NMLA is a registered life insurance entity, predominantly a wealth management business conducting operations through the life insurance company. Where permitted under Australian Accounting Standards, the assets and liabilities associated with life insurance and investment contracts are generally measured on a fair value basis and other assets and liabilities are generally measured on a historical cost basis.

The financial report:

- is a general purpose financial report;
- has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AAS) including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board;
- is presented in Australian Dollars with all values rounded to the nearest million dollars ($m), unless otherwise stated,
- has been prepared on a going concern basis using an historical cost basis except for the following items in the Statement of financial position which are generally measured on a fair value basis:
  - assets and liabilities associated with life insurance contracts
  - assets and liabilities associated with investment contracts
- presents assets and liabilities on the face of the Statement of financial position in decreasing order of liquidity and does not distinguish between current and non-current items,
- presents reclassified comparative information where required for consistency with the current year's presentation,

On 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), both wholly owned controlled entities of the AMP Limited Group. The transfer is treated by NMLA and AMP Life as an equity transaction with their respective parents occurring after the balance sheet date. The Statement of comprehensive income and Statement of financial position separately present the life insurance business transferred to AMP Life as Discontinued operations on the Statement of comprehensive income and the Statement of financial position in accordance with the accounting requirements of AASB 5: *Non-current Assets Held for Sale and Discontinued Operations*. The supporting notes to the financial statements are presented in aggregate.

Estimates of amounts expected to be recovered or settled (a) no more than 12 months after the reporting date ('current'), and (b) more than 12 months after the reporting date ('non-current'), have been provided in the relevant notes.

NMLA Limited is a for-profit entity.

About this report

(b) Understanding The National Mutual Life Association of Australasia Limited financial report (continued)

The financial statements for the year ended 31 December 2016 were authorised for issue on 8 February 2017 in accordance with a resolution of the directors.

(c) Significant accounting policies

The significant accounting policies adopted in the preparation of the financial report are contained in the notes to the financial statements to which they relate. All accounting policies have been consistently applied to the current year and comparative period, unless otherwise stated. Where an accounting policy relates to more than one note or where no note is provided, the accounting policies are set out below.

Interest, dividends and distributions income
Interest income is recognised when NMLA obtains control of the right to receive the interest. Revenue from dividends is recognised when NMLA's right to receive payment is established.

Foreign currency transactions
Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars (the functional currency) at reporting date using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities carried at fair value	Date fair value is determined

Foreign exchange gains and losses resulting from translation of foreign exchange transactions are recognised in profit or loss.

The assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date
Reserves	Reporting date

Foreign exchange differences resulting from translation of foreign operations are initially recognised in the foreign currency translation reserve and subsequently transferred to the Statement of comprehensive income on disposal of the foreign operation.

Intangible assets
Capitalised costs
Costs are capitalised and carried forward only where the costs relate to the creation of an asset with expected future economic benefits which are capable of reliable measurement. Otherwise, all costs are recognised as expenses in the period in which they are incurred. Capitalised costs are amortised on a straight-line basis over the estimated useful life of the asset, commencing at the time the asset is first put into use or held ready for use (whichever is the earlier). The useful lives of such assets generally do not exceed five years, however a useful life of up to 10 years has been applied to some capitalised costs relating to IT systems development projects where NMLA expects benefits to flow over a longer period.

Reassessment of useful life
The useful life of each intangible asset is reviewed at the end of the period and, where necessary, adjusted to reflect current assessments.

(d) Critical judgements and estimates

Preparation of the financial statements requires management to make judgements, estimates and assumptions about future events. Information on critical judgements and estimates considered when applying the accounting policies can be found in the following notes:

Accounting judgements and estimates	Note		Page
Tax	Note 1.3	Taxes	13
Fair value of financial assets	Note 2.1	Investments in financial instruments	15
Life insurance contract liabilities	Note 4.1	Accounting for life insurance and investment contracts	30
Investment contract liabilities	Note 4.1	Accounting for life insurance and investment contracts	30
Controlled entities	Note 5.1	Controlled entities	51

About this report

(e) Memorandum of Demutualisation

The Memorandum of Demutualisation (MoD), which formed part of the Explanatory Memorandum dated 13 June 1995, sets out rules for the management of NMLA's business.

The rules covered items such as:

- establishment and maintenance of sub accounts for various categories of policies;
- allocation of operating profits and losses;
- distribution of retained profits; and
- maintenance of interest equalisation reserves.

For the period ended 6 May 2016, the Directors have received a report from the NMLA Appointed Actuary stating that in his opinion NMLA has managed its business in accordance with the Memorandum of Demutualisation in all material respects.

As at 6 May 2016, the Directors determined, on the advice of the NMLA Appointed Actuary, that the existing rules be replaced with a rule that the future management of the NMLA life insurance business be conducted in accordance with the Participating Business Management Framework (PBMF) applying to NMLA.

The Directors are satisfied that compliance with the ongoing requirements are covered by other processes and hence do not intend to continue reporting on the MoD in future Financial reports.

Section 1: Results for the year

- 1.1 Fee revenue
- 1.2 Operating expenses
- 1.3 Taxes
- 1.4 Dividends and distributions

1.1 Fee revenue

	2016 $m	2015 $m
Investment management and contract fees	163	176
Total fee revenue	**163**	**176**

Accounting policy – recognition and measurement

Fee revenue
Fees are charged to customers in connection with investment contracts and other financial services contracts. Fee revenue is recognised as services are provided either at inception of the contract or as they are performed over the life of the contract. For example fees for ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as the service is provided.

Section 1: Results for the year

1.2 Operating expenses

	2016 $m	2015 $m
Commission expense	(157)	(158)
Investment management expenses	(39)	(20)
Fee and commission expenses	**(196)**	**(178)**
Service fee expense	(199)	(198)
Other expenses	(52)	(30)
Other operating expenses	**(251)**	**(228)**
Total operating expenses	**(447)**	**(406)**

Section 1: Results for the year

1.3 Taxes

(a) Income tax expense
The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders. In respect of income tax expense attributable to shareholders, the tax rate which applies is 30% in Australia and 28% in New Zealand.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15%, and certain classes of income on some annuity business are tax-exempt. The rate applicable to New Zealand life insurance business is 28%.

The following table provides a reconciliation of differences between prima facie tax calculated as 30% of the profit before income tax for the year and the income tax expense recognised in the Statement of comprehensive income for the year.

	2016 $m	2015 $m
(Loss) profit before income tax	(168)	316
Policyholder tax expense recognised as part of the change in policyholder liabilities in determining profit before income tax	(29)	(9)
Profit before income tax excluding tax charged to policyholders	**(197)**	**307**
Prima facie shareholder tax at the rate of 30%	59	(92)
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/taxable in calculating taxable income:		
Shareholder impact of life insurance tax treatment	(4)	(1)
Non-taxable income	-	2
Difference in overseas tax rate	1	1
Over (under) provided in previous years after excluding amounts attributable to policyholders	2	12
Other items	-	4
Income tax credit (expense) attributable to the shareholder	58	(74)
Income tax (expense) credit attributable to the policyholder	(29)	(9)
Income tax credit (expense)	**29**	**(83)**

Section 1: Results for the year

1.3 Taxes (continued)

(b) Analysis of income tax (expense) credit

	2016 $m	2015 $m
Current tax (expense) credit	53	(122)
Increase (decrease) in deferred tax assets	(39)	(6)
(Increase) decrease in deferred tax liabilities	14	28
Over provided in previous years including amounts attributable to policyholders	1	17
Income tax credit (expense)	**29**	**(83)**

(c) Analysis of deferred tax balances

	2016 $m	2015 $m
Analysis of deferred tax assets		
Expenses deductible and income recognisable in future years	142	54
Losses available for offset against future taxable income	-	126
Total deferred tax assets	**142**	**180**
Analysis of deferred tax liability		
Unrealised investment gains	118	134
Other	47	44
Total deferred tax liability	**165**	**178**

Section 1: Results for the year

1.3 Taxes (continued)

Accounting policy – recognition and measurement

Income tax expense
Income tax (expense) credit is the tax payable on taxable income for the current period based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities. These changes are attributable to:

- temporary differences between the tax bases of assets and liabilities and their Statement of financial position carrying amounts
- unused tax losses
- the impact of changes in the amounts of deferred tax assets and liabilities arising from changes in tax rates or in the manner in which these balances are expected to be realised.

Adjustments to income tax expense/credit are also made for any differences between the amounts paid, or expected to be paid, in relation to prior periods and the amounts provided for these periods at the start of the current period.

Any tax impact on income and expense items that are recognised directly in equity is also recognised directly in equity.

Income tax for investment contracts business and life insurance contracts business
The income tax expense recognised in the Statement of comprehensive income of NMLA, reflects tax imposed on shareholders as well as policyholders. Investment contracts liabilities and life insurance contracts liabilities are established in Australia net, and in New Zealand gross, of the policyholders' share of any current tax payable and deferred tax balances of NMLA. Arrangements made with some superannuation funds result in NMLA insurance entities making payments to the Australian Taxation Office in relation to contributions tax arising in those funds. The amounts paid are recognised as a decrease in investment contract liabilities and not included in income tax expense.

Deferred tax
Deferred tax assets and liabilities are recognised for temporary differences and are measured at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on tax rates that have been enacted or substantively enacted for each jurisdiction at the reporting date. Deferred tax assets and liabilities, including amounts in respect of investment contracts and life insurance contracts, are not discounted to present value.

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

Tax consolidation
AMP Limited and its wholly-owned Australian controlled entities including NMLA are part of a tax-consolidated group, with AMP Limited being the head entity. A tax funding agreement has been entered into by the head entity and the controlled entities in the tax-consolidated group and requires entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current or deferred tax assets in respect of tax losses arising from external transactions occurring after 30 June 2003, the implementation date of the tax-consolidated group.

Assets and liabilities that arise as a result of balances transferred to/from entities within the tax-consolidated group to the head entity are recognised as related-party balances receivable and payable in the Statement of financial position of NMLA. The recoverability of balances arising from the tax funding arrangements is based on the ability of the tax-consolidated group to utilise the amounts recognised by the head entity.

Critical accounting estimates and judgements:

NMLA is subject to taxes in Australia and other jurisdictions where it has operations. The application of tax law to the specific circumstances and transactions of NMLA requires the exercise of judgement by management. The tax treatments adopted by management in preparing the financial statements may be impacted by changes in legislation and interpretations or be subject to challenge by tax authorities.

Judgement is also applied by management in determining the extent to which the recovery of carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets.

Section 1: Results for the year

1.4 Dividends and distributions

Dividends and distributions paid during the year are shown in the table below:

	2016 $m	2015 $m
Unfranked dividends $9.71 (2015: $8.60) per ordinary share	(202)	(179)
Distributions paid - capital notes	(7)	(1)
Total dividends and distributions paid	**(209)**	**(180)**

Section 2: Investments and working capital

2.1 Investments in financial instruments

	2016 $m	2015 $m
(a) Investments in financial assets measured at fair value through profit or loss		
Equity securities and listed managed investment schemes	9	10
Debt securities	700	853
Investments in unlisted equities and managed investment schemes [1]	11,515	11,502
Derivative financial assets	286	321
Total financial assets measured at fair value through profit or loss	**12,510**	**12,686**
(b) Other financial liabilities		
Derivative financial liabilities	103	92
Total other financial liabilities	**103**	**92**

1 Includes investments in controlled entities of $10,964m (2015: $10,816m).

Accounting policy – recognition and measurement

Financial assets measured at fair value through profit or loss
Financial assets designated on initial recognition as *financial assets measured at fair value through profit or loss* are initially recognised at fair value determined as the purchase cost of the asset, exclusive of any transaction costs. Transaction costs are expensed as incurred in profit or loss. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the Statement of comprehensive income in the period in which they arise.

Recognition and de-recognition of financial assets and liabilities
Financial assets and financial liabilities are recognised at the date NMLA becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expires.

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

Critical accounting estimates and judgements:

Financial assets measured at fair value
Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs.

Further detail on the determination of fair value of financial instruments is set out in Section 2.4.

Section 2: Investments and working capital

2.2 Receivables

	2016 $m	2015 $m
Investment related receivable	65	73
Life insurance contract premiums receivable	83	117
Reinsurance receivables	19	23
Other receivables		
- related entities	48	62
- other entities	17	17
Total receivables	**232**	**292**
Current	*232*	*292*
Non-current	-	-

Accounting policy – recognition and measurement

Receivables
Receivables that back investment contract liabilities and life insurance contract liabilities are designated as financial assets measured at fair value through profit or loss. Reinsurance and other recoveries are discounted to present value. Receivables that do not back investment contract and life insurance contract liabilities are measured at nominal amounts due, less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full amount is no longer probable. Bad debts are written off as incurred. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

Section 2: Investments and working capital

2.3 Payables

	2016 $m	2015 $m
Investment related payables	248	471
Life insurance and investment contracts in process of settlement	99	104
Other payables		
- related entities	63	48
- other entities	68	105
Total payables	**478**	**728**
Current	*478*	*728*
Non-current	-	-

Accounting policy – recognition and measurement

Payables
Payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount payable approximates fair value.

Section 2: Investments and working capital

2.4 Fair value information

The following table shows the carrying amount and estimated fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2016	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets					
Measured at fair value on a recurring basis					
Equity securities and listed managed investment schemes	9	-	9	-	9
Debt securities	700	-	700	-	700
Investments in unlisted managed investment schemes	11,515	-	11,515	-	11,515
Derivative financial assets	286	-	286	-	286
Total financial assets	**12,510**	**-**	**12,510**	**-**	**12,510**
Liabilities					
Measured at fair value on a recurring basis					
Derivative financial liabilities	103	-	103	-	103
Investment contract liabilities	5,171	-	15	5,156	5,171
Total financial liabilities	**5,274**	**-**	**118**	**5,156**	**5,274**

2015	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets					
Measured at fair value on a recurring basis					
Equity securities and listed managed investment schemes	10	-	10	-	10
Debt securities	853	-	853	-	853
Investments in unlisted managed investment schemes	11,502	-	11,499	3	11,502
Derivative financial assets	321	-	321	-	321
Total financial assets	**12,686**	**-**	**12,683**	**3**	**12,686**
Liabilities					
Measured at fair value on a recurring basis					
Derivative financial liabilities	92	-	92	-	92
Investment contract liabilities	5,167	-	18	5,149	5,167
Total financial liabilities	**5,259**	**-**	**110**	**5,149**	**5,259**

Section 2: Investments and working capital

2.4 Fair value information (continued)

AMP's methodology and assumptions used to estimate the fair value of financial instruments are described below:

Listed equity securities and listed managed investment schemes	The fair value of listed equity securities traded in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
Debt securities	The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
Unlisted managed investment schemes	The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.
Derivative financial assets and liabilities	The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices (current bid price or current offer price) at the reporting date. The fair value of financial instruments not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, discounted cash flow methods and comparison to quoted market prices or dealer quotes for similar instruments.

The financial assets and liabilities measured at fair value are categorised using the fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

- Level 1: the fair value is valued by reference to quoted prices and active markets for identical assets
- Level 2: the fair value is estimated using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

There have been no significant transfers between Level 1 and Level 2 during the 2016 and 2015 financial years.

Section 2: Investments and working capital

2.4 Fair value information (continued)

Level 3 fair values

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Investment contract liabilities	Valuation model based on published unit prices and the fair value of backing assets. Fixed retirement income policies - discounted cash flow.	Fair value of financial instruments. Cash flow forecasts. Credit risk.

Reconciliation of level 3 values

The following table shows movements in the fair values of financial instruments categorised as level 3 in the fair value hierarchy:

2016	Balance at the beginning of the year $m	FX gains or (losses)[1] $m	Total gains/ (losses)[1] $m	Purchases/ deposits $m	Sales/ (With-drawals) $m	Net transfers in/(out)[1] $m	Balance at end of the year $m	Total gains and (losses) on assets and liabilities held at reporting date $m
Liabilities								
Investment contract liabilities	5,149	5	248	1,230	(1,476)	-	5,156	212
Total financial liabilities	**5,149**	**5**	**248**	**1,230**	**(1,476)**	**-**	**5,156**	**212**

2015	Balance at the beginning of the year $m	FX gains or (losses)[2] $m	Total gains/ (losses)[2] $m	Purchases/ deposits $m	Sales/ (With-drawals) $m	Net transfers in/(out)[1] $m	Balance at end of period $m	Total gains and (losses) on assets and liabilities held at reporting date $m
Liabilities								
Investment contract liabilities	5,413	(3)	160	403	(824)	-	5,149	148
Total financial liabilities	**5,413**	**(3)**	**160**	**403**	**(824)**	**-**	**5,149**	**148**

1. Gains or losses are classified in investment gains and losses or change in policyholder liabilities in the Statement of comprehensive income.
2. NMLA recognises transfers as at the end of the reporting period during which the transfer has occurred. Transfers are recognised when there are changes in the observability of the pricing of the relevant securities.

Financial asset valuation process

For financial assets categorised within level 3 of the fair value hierarchy, the valuation processes applied in valuing such assets is governed by the AMP Capital asset valuation policy. This policy outlines the asset valuation methodologies and processes applied to measure non-exchange traded assets which have no regular market price, including investment property, infrastructure, private equity, alternative assets, and illiquid debt securities. All significant level 3 assets are referred to the appropriate valuation committee who meet at least every six months, or more frequently if required.

Section 3: Capital structure and financial risk management

3.1 Contributed equity

	2016 $m	2015 $m
Ordinary shares[1]	1,059	826
Capital notes[2]	100	100
Total contributed equity at the end of the year	**1,159**	**926**
Movements in ordinary shares		
Balance at the beginning of the year	826	916
Issue / (Return) of ordinary share capital	233	(90)
Balance at the end of the year 20,811,616 (2015: 20,811,616) ordinary shares fully paid	1,059	826
Movements in Capital Notes		
Balance at the beginning of the year	100	-
Capital notes issued[2]	-	100
Balance at the end of the year 406,000 (2015: 406,000) capital notes	100	100
Total contributed equity at the end of the year	**1,159**	**926**

1. Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares have no par value.

2. NMLA has issued capital notes to AMP Limited as follows:
   - $60m of capital notes (6,000 notes with a face value of $10,000 per note) issued in March 2015. NMLA has the right but not the obligation to redeem the notes on 27 March 2020 or, subject to certain conditions, at a later date.
   - $40m of capital notes (400,000 notes with a face value of $100 per note) issued in November 2015. NMLA has the right but not the obligation to redeem the notes on 22 December 2021 or, subject to certain conditions, at a later date.

The capital notes are non-cumulative, subordinated, perpetual and unsecured. Distributions on the capital notes are at the absolute discretion of NMLA. In the event that APRA determines NMLA to be non-viable, the Notes may be written off. In a winding up of NMLA, the capital notes will rank ahead of ordinary shares, but behind all other creditors for payment.

Accounting policy – recognition and measurement

Issued capital
Issued capital in respect of ordinary shares is recognised as the fair value of consideration received by the parent entity. Incremental costs directly attributable to the issue of certain new shares are recognised in equity as a deduction, net of tax, from the proceeds.

Section 3: Capital structure and financial risk management

3.2 Interest-bearing liabilities

	2016 $m	2015 $m
Subordinated Notes (first call date 18 December 2018, maturity 18 December 2023)[1]	85	85
Total interest-bearing liabilities	**85**	**85**

1 Subordinated Notes may convert into NMLA shares if a Non Viability Trigger Event occurs. The interest payable on the subordinated debt is BBSW3M + 2.65%.

Accounting policy – recognition and measurement

Interest-bearing liabilities
Interest-bearing liabilities are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Finance costs
Finance costs include interest on interest bearing liabilities. Borrowing costs are recognised as expenses when incurred and are presented as a line item on the Statement of comprehensive income.

Section 3: Capital structure and financial risk management

3.3 Financial risk management

The AMP Limited Board has overall responsibility for the risk management framework including the approval of AMP's strategic plan, risk management strategy and risk appetite. Specifically, financial risk arises from the holding of financial instruments and financial risk management (FRM) is an integral part of NMLA's enterprise risk management framework.

This note discloses financial risk in accordance with the categories in AASB 7 *Financial Instruments: Disclosures*:

- Market risk
- Liquidity and refinancing risk
- Credit concentration risk

These risks are managed in accordance with the board approved risk appetite statement and the individual policies for each risk category and business approved by the CFO under delegation from Group ALCO (AMP Group Asset and Liability Committee).

(a) Market risk

Market risk is the risk that the fair value of assets and liabilities, or future cash flows of a financial instrument will fluctuate due to movements in the financial markets including interest rates, foreign exchange rates, equity prices, property prices, credit spreads, commodity prices, market volatilities and other financial market variables.

The following table provides information on significant market risk exposures for NMLA, which could lead to an impact on the AMP group's profit after tax and equity, and the management of those exposures.

Market risk	Exposures	Management of exposures and use of derivatives
Interest rate risk		
The risk of an impact on NMLA's profit after tax and equity arising from fluctuations of the fair value or future cash flows of financial instruments due to changes in market interest rates.	NMLA's long-term subordinated debt. Interest bearing investment assets of the shareholder and statutory funds.	Interest rate risk is managed by entering into floating-to-fixed interest rate swaps, which have the effect of converting borrowings from floating rate to fixed rate. NMLA manages interest rate and other market risks pursuant to an asset and liability management policy and are also subject to the relevant regulatory requirements governed by the Life Act.
Currency risk		
The risk of an impact on NMLA's profit after tax and equity arising from fluctuations of the fair value of a financial asset, liability or commitment due to changes in foreign exchange rates.	Foreign currency denominated assets and liabilities. Capital invested in overseas operations. Foreign exchange rate movements on specific cash flow transactions.	The AMP group uses swaps to hedge the interest rate risk and foreign currency risk on foreign currency denominated borrowings but does not hedge the capital invested in overseas operations. The AMP group hedges material foreign currency risk originated by receipts and payments once the value and timing of the expected cash flow is known excluding the international equities portfolio attributable to shareholders within NMLA Statutory Fund No.1.
Equity price risk		
The risk of an impact on NMLA's profit after tax and equity arising from fluctuations of the fair value or future cash flows of a financial instrument due to changes in equity prices.	Exposure for shareholder includes listed and unlisted shares and participation in equity unit trusts.	Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis

The table below includes sensitivity analysis showing how the profit after tax and equity would have been impacted by changes in market risk variables. The analysis:

- Shows the direct impact of a reasonably possible change in market rate and is not intended to illustrate a remote, worst case stress test scenario.
- Assumes that all underlying exposures and related hedges are included and the change in variable occurs at the reporting date.
- Does not include the impact of any mitigating management actions over the period to the subsequent reporting date.
- Includes in the impact on equity both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting.

		2016		2015	
		Impact on profit after tax	Impact on equity	Impact on profit after tax	Impact on equity
		Increase (decrease)	Increase (decrease)	Increase (decrease)	Increase (decrease)
Change in variables		$m	$m	$m	$m
Interest rate risk	+ 100 bp	-	-	12	12
Impact of a 100 basis points(bp) change in Australian and international interest rates.	- 100 bp	(8)	(8)	(25)	(25)
Currency risk	10% depreciation of AUD	(1)	(1)	2	2
Impact of a 10% movement of exchange rate against the Australian dollar on currency sensitive monetary assets and liabilities.	10% appreciation of AUD	1	1	(2)	(2)
Equity price risk	10% increase in:				
Impact of a 10% movement in Australian and international equities. Any potential impact on fees from AMP Life's investments linked business is not included.	Australian equities	(1)	(1)	3	3
	International equities	1	1	4	4
	10% decrease in:				
	Australian equities	1	1	(3)	(3)
	International equities	(1)	(1)	(4)	(4)

The categories of risk faced and methods used for deriving sensitivity information did not change from previous periods.

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(b) Liquidity and refinancing risk

Liquidity risk
The risk that NMLA is not able to meet its obligations as they fall due because of an inability to liquidate assets or obtain adequate funding when required.

Refinancing risk
The risk that NMLA is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.

Maturity analysis

Below is a summary of the maturity profiles of NMLA's undiscounted financial liabilities and off-balance sheet items at the reporting date, based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

2016	Up to 1 year or no term $m	1 to 5 years $m	Over 5 years $m	Other[2] $m	Total $m
Non-derivative financial liabilities					
Payables	478	-	-	-	478
Subordinated debt	4	89	-	-	93
Investment contract liabilities[1]	28	91	231	4,938	5,288
Total undiscounted financial liabilities[2]	**510**	**180**	**231**	**4,938**	**5,859**

2015	Up to 1 year or no term $m	1 to 5 years $m	Over 5 years $m	Other[2] $m	Total $m
Non-derivative financial liabilities					
Payables	728	-	-	-	728
Subordinated debt	5	93	-	-	98
Investment contract liabilities[1]	29	94	220	4,927	5,270
Total undiscounted financial liabilities[2]	**762**	**187**	**220**	**4,927**	**6,096**

1. If all policyholders claimed their funds there may be some delays in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk.
2. Investment contract liabilities are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all these policyholders claimed their funds, there may be some delay in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk. External unitholders' liabilities all relate to controlled entities of the life entities' statutory funds and would only be paid when corresponding assets are realised.

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(c) Credit risk

Credit risk management is decentralised in business units within the AMP group, with the exception of credit risk directly and indirectly impacting shareholder capital, which is measured and managed on an aggregate basis by Group Treasury at the AMP group level and reported to Group ALCO.

Risk	Exposures	Management of exposures and use of derivatives
Credit risk Credit default risk is the risk of financial or reputational loss due to a counterparty failing to meet their contractual commitments in full and on time. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.	Wholesale credit risk on the invested fixed income portfolios in NMLA statutory funds.	Managed by the AMP Capital Risk and Compliance Committee and reported to the fund managers, within specified credit criteria in the mandate approved by NMLA Board. Responsibility of the individual investment teams. There is also a dedicated credit research team and a specific credit investment committee.

The AMP Concentration & Credit Default Risk Policy sets out the assessment and determination of what constitutes credit concentration risk. The policy sets exposure limits based on each counterparty's credit rating (unless special considerations are defined). Additional limits are set for the distribution of the total portfolio by credit rating bands. Compliance with this policy is monitored and exposures and breaches are reported to portfolio managers, senior management and the AMP Board Risk Committee through periodic financial risk management reports.

Group Treasury also might enter into credit default swaps to hedge the concentration risk exposure against a specific issuer, or aggregated at the parent entity, when material exposures are over the authorised limit.

The exposures on interest bearing securities and cash equivalents which impact the AMP group's capital position are managed by Group Treasury within limits set by the AMP Concentration & Credit Default Risk Policy.

Master netting or similar agreements

NMLA utilises netting agreements to mitigate credit risk exposures from certain counterparties.

Derivative financial assets and liabilities
The credit risk of derivatives is managed in the context of the AMP group's overall credit risk policies and includes the use of Credit Support Annexes to derivative agreements which facilitate the bi-lateral posting of collateral.

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not automatically meet the criteria for offsetting in the Statement of financial position. This is because the AMP group, in most cases, does not have any currently legally enforceable right to offset recognised amounts.

If these netting arrangements were applied to the derivative portfolio, derivative liabilities of $103m would be reduced by $7m to the net amount of $96m, nil amounts would be available for offset against derivative assets (2015: derivative liabilities of $92m would be reduced by $4m to the net amount of $88m, derivative assets of $321m would be reduced by $4m to the net amount of $317m).

Section 3: Capital structure and financial risk management

3.4 Other derivative information

Derivative financial instruments are measured at fair value in the Statement of financial position as assets and liabilities. Asset and liability values on individual transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in values of derivative financial instruments are recognised in the Statement of comprehensive income.

NMLA uses derivative financial instruments including financial futures, forward foreign exchange contracts, exchange traded and other options and forward rate agreements to hedge the impact of market movements on the value of assets in the investment portfolios, and to effect a change in the asset mix of investment portfolios.

In respect of the risks associated with the use of derivative financial instruments, price risk is controlled by exposure limits, which are subject to monitoring and review. Foreign exchange hedges are monitored on a regular basis to ensure they are effective in the reduction of price risk.

The market risk of derivatives is managed and controlled as an integral part of the financial risk of NMLA. The credit risk of derivatives is also managed in the context of the NMLA's overall credit risk policies and includes the use of Credit Support Annex (CSA)'s which facilitate the bi-lateral posting of collateral.

Accounting policy – recognition and measurement

Derivative financial instruments
Derivative financial instruments are initially recognised at fair value exclusive of any transaction costs on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. All derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from the change in fair value of derivatives, except those that qualify as effective cash flow hedges, are immediately recognised in the Statement of comprehensive income.

Section 3: Capital structure and financial risk management

3.5 Capital management

NMLA and its subsidiaries hold capital to protect customers, creditors, shareholders and policyholders against unexpected losses to a level that is consistent with AMP's risk appetite, approved by the board.

NMLA and its subsidiaries aim to optimise the mix of capital resources in order to minimise the cost of capital and maximise shareholder value.

NMLA is an operating entity within the AMP group and is an APRA regulated company. Controlled entities of NMLA also include an APRA regulated approved superannuation trustee (RSE) and companies that hold Australian Financial Services Licences (AFSL).

The Minimum Regulatory Capital Requirement (MRR) is the amount of shareholder capital required by each of AMP's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirements are as follows:

- Capital adequacy requirements as specified under the Life Act and APRA Life Insurance Prudential Standards. This applies to the company as a whole, and each statutory fund of the company.
- Controlled entities of the company that hold an AFSL and RSE licence – capital and liquidity requirements under the appropriate AFSL and APRA Superannuation Prudential Standards.

NMLA has a Board approved minimum capital target above APRA requirements, with additional capital targets held above this amount. The capital target above the Board minimum has been set to a less than 10% probability of capital resources falling below the Board minimum over a 12 month period. In addition, the participating business of the life insurance companies is managed to target a very high level of confidence that the business is self-supporting and that there are sufficient assets to support policyholder liabilities.

At all times during the current and prior financial year, all of the AMP group regulated entities complied with the applicable externally imposed capital requirements

Section 4: Life insurance and investment contracts

4.1 Accounting for life insurance contracts and investment contracts

The two major contract classifications are investment contracts and life insurance contracts.

For the purposes of this financial report, holders of investment contracts or life insurance contracts are collectively and individually referred to as *policyholders.*

Investment contracts
The investment contracts of NMLA relate to wealth management products such as savings, investment-linked and retirement income policies. The nature of this business is that NMLA receive deposits from policyholders and those funds are invested on behalf of the policyholders. Fees and other charges are passed to the shareholder and reported as revenue.

The liability to policyholders, other than for fixed retirement income policies, is linked to the performance and value of the assets that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets. For fixed retirement income policies, the liability is linked to the fair value of the fixed retirement income payments and associated management services.

The fair value of the fixed retirement income payments is calculated as their net present value using a fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

Life insurance contracts
NMLA issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies known as *discretionary participating contracts* that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of NMLA. Such contracts are defined as *life insurance contracts* and accounted for using *Margin on Services* (MoS).

Under MoS, the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service). The planned release of this margin is included in the movement in life insurance contract liabilities recognised in the Income statement.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected using best-estimate assumptions about the future. The liability is calculated as the net present value of these projected cash flows. When the benefits under a life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future investment earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is based on the zero coupon government bond rate and a liquidity margin, which depend on the nature, structure and terms of the contract liabilities.

An accumulation method may be used if it produces results that are not materially different from those produced by a projection method. A modified accumulation method is used for some discretionary participating business, where the life insurance liability is the accumulation of amounts invested by policyholders, less fees specified in the policy, plus investment earnings and vested benefits, adjusted to allow for the fact that crediting rates are determined by reference to investment income over a period of greater than one year. The accumulation method may be adjusted to the extent that acquisition expenses are to be recovered from future margins between fees and expenses.

Section 4: Life insurance and investment contracts

4.1 Accounting for life insurance contracts and investment contracts (continued)

Allocation of operating profit and unvested policyholder benefits
The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995* (Cth) (Life Act) and the Participating Business Management Framework applying to NMLA.

Once profit is allocated to participating policyholders it can only be distributed to these policyholders.

Profit allocated to participating policyholders is recognised in the Income statement as an increase in policy liabilities. The policy liabilities include profit that has not yet been allocated to specific policyholders (i.e. unvested) and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested).

Bonus distributions to participating policyholders do not alter the amount of profit attributable to shareholders. There are merely changes the nature of the liability from unvested to vested.

The principles of allocation of the profit arising from discretionary participating business are as follows:

(i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings. This proportion is, mostly, 80% to policyholders and 20% to shareholders.

(ii) Other MoS profits arising from discretionary participating business are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
- the profits arising from NMLA's discretionary participating investment account business where 100% of investment profit is allocated to policyholders and 100% of any other profit or loss is allocated to shareholders, with the over-riding provision being that at least 80% of any profit and not more than 80% of any loss be allocated to policyholders' retained profits of the relevant statutory fund
- the underwriting profit arising in respect of NMLA's participating business super risk business is allocated 90% to policyholders and 10% to shareholders

Allocation of expenses within the statutory funds
All operating expenses relating to the life insurance contract and investment contract activities are apportioned between acquisition, maintenance and investment management expenses. Expenses which are directly attributable to an individual life insurance contract or investment contract or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate.

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard to the activities to which that expense relates to. The apportionment basis has been made in accordance with Actuarial Standards and on an equitable basis to the different classes of business in accordance with the Life Act.

The costs apportioned to life insurance contracts are included in the determination of the margin described in section 4.1.

Investment management expenses of the life statutory funds are classified as operating expenses.

Reinsurance
Life insurance contract premium ceded to reinsurers is recognised as an expense and Life insurance contract claims recovered from reinsurers is recognised as income.

The present value of NMLA's net contractual rights and obligations under reinsurance contracts is presented as a reinsurance asset or a reinsurance liability.

Changes in the reinsurance asset during the period are recognised as Changes in policyholder liabilities.

Critical accounting judgments and estimates

Life insurance contract liabilities
The measurement of insurance contract liabilities is determined using the MoS methodology. The determination of the liability amounts involves judgement in selecting the valuation methods, profit carriers and valuation assumptions for each type of business. The determination is subjective and relatively small changes in assumptions may have a significant impact on the reported profit. The board is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary.

Investment contract liabilities
Investment contract liabilities are measured at fair value. For the majority of contracts, the fair value is determined based on published unit prices and the fair value of backing assets, and does not generally require the exercise of judgement. For fixed income products and the North capital guarantee, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions.

Section 4: Life insurance and investment contracts

4.2 Life insurance contracts – premiums, claims, expenses and liabilities

	2016 $m	2015 $m
(a) Analysis of life insurance contract premium revenue - net of reinsurance		
Life insurance contract premium revenue	1,066	1,063
Life insurance contract premiums ceded to reinsurers	(120)	(116)
Life insurance contract premium revenue - net of reinsurance	**946**	**947**
(b) Analysis of life insurance contract claims expenses - net of reinsurance		
Life insurance contract claims expenses	(790)	(763)
Life insurance claims recovered from reinsurers	91	85
Life insurance contract claims expenses - net of reinsurance	**(699)**	**(678)**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(41)	(39)
- Other	(81)	(73)
Life insurance contract maintenance expenses		
- Commission	(94)	(94)
- Other	(115)	(110)
Investment management expenses	(12)	(10)

Section 4: Life insurance and investment contracts

4.2 Life insurance contracts - premiums, claims, expenses and liabilities (continued)

	2016 $m	2015 $m
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- value of future life insurance contract benefits	7,478	6,685
- value of future expenses	2,095	1,822
- value of future premiums	(8,029)	(7,557)
Value of future profits	-	
- life insurance contract holder bonuses	709	685
- shareholder's profit margins	638	864
Total life insurance contract liabilities determined using the projection method	**2,891**	**2,499**
Life insurance contract liabilities determined using the accumulation method		
Best estimate liability		
- value of future life insurance contract benefits	2,240	2,477
- value of future acquisition expenses	(62)	(84)
Total life insurance contract liabilities determined using the accumulation method	**2,178**	**2,393**
Value of declared bonus	55	92
Unvested policyholder benefits liabilities[1]	518	494
Total life insurance contract liabilities net of reinsurance	**5,642**	**5,478**
Reinsurance asset - ceded life insurance contracts	452	414
Total life insurance contract liabilities gross of reinsurance	**6,094**	**5,892**

1 For participating business in the statutory funds, part of the assets in excess of the life insurance contract and other liabilities calculated under MoS are attributed to policyholders. Under the Life Act, this is referred to as policyholder retained profits. For the purpose of reporting under accounting standards, this amount is referred to as unvested life policyholder benefits liabilities and is included within life insurance contract liabilities even though it is yet to be vested as specific policyholder entitlements.

	2016 $m	2015 $m
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	5,892	6,121
Change in life insurance contract liabilities recognised in the Income statement	453	24
Premiums recognised as an increase in life insurance contract liabilities	84	98
Claims recognised as a decrease in life insurance contract liabilities	(404)	(296)
Change in reinsurance asset - ceded life insurance contracts	38	(36)
Foreign exchange adjustment	31	(19)
Total life insurance contract liabilities at the end of the year	**6,094**	**5,892**

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of margin on services (MoS) described in section 4.1. The key assumptions and methods used in the calculation of life insurance contract liabilities are outlined below.

The methods and profit carriers - used to calculate life insurance contract liabilities for particular policy types are as follows:

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment account	Modified accumulation	n/a
Retail risk (lump sum)	Projection	Expected premiums
Retail risk (income protection)	Projection	Expected premiums
Group risk (lump sum)	Accumulation	n/a
Group risk (income benefits)	Accumulation	n/a
Life annuities	Projection	Annuity payments

(a) Risk-free discount rates
Except where benefits are contractually linked to the performance of the assets held, a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations is used. The rates are determined as shown in the following table:

Business type	Basis[1]	31 December 2016 Australia %	31 December 2016 New Zealand %	31 December 2015 Australia %	31 December 2015 New Zealand %
Retail risk (other than income benefit open claims)[1]	Zero coupon government bond yield curve	1.7 - 4.1	1.9 - 4.8	2.0 - 3.7	2.7 - 4.5
Retail risk and group risk (income benefit open claims)[1]	Zero coupon government bond yield curve (including liquidity premium)	2.1 - 4.4	2.2 - 5.1	2.5 - 4.2	3.1 - 5.0
Life annuities	Zero coupon government bond yield curve (including liquidity premium)	n/a	2.3 - 5.2	n/a	3.3 - 5.1

1 The discount rates vary by duration in the range shown above.

(b) Future maintenance and investment expenses
Unit maintenance costs are based on budgeted expenses in the year following the reporting date (including GST, as appropriate, and excluding one-off expenses). For future years, these are increased for inflation as described in (c) below. These expenses include fees charged to the life statutory funds by service companies in the AMP group. Unit costs vary by product line and class of business based on an apportionment that is supported by expense analyses.

Future investment expenses are based on the fees currently charged by the asset managers.

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology (continued)

(c) Inflation and indexation
Benefits and premiums of many regular premium policies are automatically indexed by the published consumer price index (CPI). Assumed future take-up of these indexation options is based on NMLA's own experience. The annual future CPI rates are derived from the difference between long-term government bonds and indexed government bonds.

The expense inflation assumptions have been set based on the inflation rates, recent expense performance, NMLA's current plans and the terms of the relevant service company agreement, as appropriate.

The assumed CPI and expense inflation rates at the valuation date are:

	Australia %		New Zealand %	
	CPI	**Expense Inflation**	**CPI**	**Expense Inflation**
31 December 2016	2.0	3.0	1.5	2.0
31 December 2015	2.2	3.0	2.5	3.0

(d) Bases of taxation
The bases of taxation (including deductibility of expenses) are assumed to continue in accordance with legislation current at the valuation date.

(e) Voluntary discontinuance
Assumptions for the incidence of withdrawals, paid ups and premium dormancy are primarily based on investigations of NMLA's own historical experience. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration, premium structure, smoker status, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across NMLA is extremely diverse.

The assumptions for future rates of discontinuance for the major classes of life insurance contracts have been reviewed and strengthened for some business lines from those assumed at 31 December 2015, as shown in the following table.

	31 December 2016		**31 December 2015**	
Business type	**Australia** %	**New Zealand** %	**Australia** %	**New Zealand** %
Conventional	**2.0 - 9.4**	**1.9 - 2.5**	2.1 - 9.4	1.9 - 2.5
Retail risk (lump sum)	**12.7 - 13.5**	**11.6**	13.3 -1 5.1	11.6
Retail risk (income benefit)	**8.0 - 13.5**	**9.5**	12.0 - 13.3	9.5
Investment account	**n/a**	**n/a**	n/a	n/a

(f) Surrender values
The surrender bases assumed for calculating surrender values are those current at the reporting date. There have been no changes to the bases during the year (or the prior year) that would materially affect the valuation results.

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology (continued)

(g) Mortality and morbidity

Rates of mortality assumed at 31 December 2016 for NMLA are as follows:

- Retail risk mortality rates for NMLA Australia have been reviewed and strengthened for some business lines from those assumed at 31 December 2015, as indicated in the tables below. Retail risk mortality rates for NMLA New Zealand are unchanged from those assumed at 31 December 2015.The rates are based on the Industry standard IA04-08 Death Without Riders.
- Conventional business mortality rates are unchanged from those assumed at 31 December 2015.
- Annuitant mortality rates are unchanged from those assumed at 31 December 2015.

For Australian income protection business, the assumptions have been updated and based on the recently released ADI07-11 standard table modified, with overall product specific adjustment factors. For New Zealand income protection business, the assumptions are unchanged from those assumed at 31 December 2015. These assumptions are based on the IAD89-93 standard table.

For Australian TPD and Trauma business, retail risk products assumptions have been strengthened for some business lines from those assumed at 31 December 2015. For New Zealand TPD and Trauma business, the retail risk products assumptions are unchanged from those assumed at 31 December 2015. These assumptions are based on the latest industry table IA04-08.

The assumptions are summarised in the following table.

	Conventional - % of IA95-97	
Conventional	**Male**	**Female**
31 December 2016		
Australia	**67.5**	**67.5**
New Zealand	**73.0**	**73.0**
31 December 2015		
Australia	67.5	67.5
New Zealand	73.0	73.0

	Retail Lump Sum - % of table	
Risk Products	**Male**	**Female**
31 December 2016		
Australia[1]	**100 - 106**	**100 - 106**
New Zealand	**120**	**98**
31 December 2015		
Australia[1]	88 - 104	88 - 104
New Zealand	120	98

1 Base IA04-08 Death Without Riders table modified based on aggregated experience but with overall product specific adjustment factors

Annuities	**Male - % of IML00***	**Female - % of IFL00***
31 December 2016		
Australia and New Zealand[1]	**95.0**	**80.0**
31 December 2015		
Australia and New Zealand[1]	95.0	80.0

1 Annuities tables modified for future mortality improvements.

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology (continued)

(g) Mortality and morbidity (continued)

Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates 2016 - % of ADI 07-11 2015 - % of IAD 89-93	Termination rates (ultimate) 2016 - % of ADI 07-11 2015 - % of IAD 89-93
31 December 2016		
Australia	**70 - 146**	**70 - 95**
31 December 2015		
Australia	60 - 125	41 - 72

Income protection	Incidence rates % of IAD 89-93	Termination rates (ultimate) % of IAD 89-93
31 December 2016		
New Zealand	**53 - 80**	**41 - 57**
31 December 2015		
New Zealand	53 - 80	41 - 57

Retail Lump Sum	Male % of IA04-08	Female % of IA04-08
31 December 2016		
Australia TPD[1]	**132 - 143**	**150 - 162**
Australia Trauma[2]	**120 - 134**	**120 - 134**
New Zealand TPD[1]	**194**	**194**
New Zealand Trauma[2]	**101**	**101**
31 December 2015		
Australia TPD[1]	125 - 138	158 - 175
Australia Trauma[2]	96 - 116	96 - 111
New Zealand TPD[1]	194	194
New Zealand Trauma[2]	101	101

1 Base IA04-08 TPD table modified based on our aggregated experience but with overall product specific adjustment factors.
2 Base IA04-08 Trauma table modified based on our aggregated experience but with overall product specific adjustment factors.

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995–1997. The table has been modified to allow for future mortality improvement.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Institute and Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999-2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IML00* and IFL00* are these published tables amended for some specific NMLA experience.
IA04-08 DTH	This was published by the Institute of Actuaries of Australia under the name *A graduation of the 2004-2008 Lump Sum Investigation Data.* The table has been modified based on aggregated experience with overall product specific adjustment factors.
IA04-08 TPD	This is the TPD graduation published in the same paper as above.
IA04-08 Trauma	This is the Trauma graduation published in the same paper as above.
IAD 89-93	A disability table developed by the Institute of Actuaries of Australia based on Australian disability income experience for the period 1989-1993 The table has been adjusted to take account of NMLA's own experience.
ADI 07-11	A disability table developed by KPMG at the request of the Financial Services Council (FSC) based on Australian disability income experience for the period 2007-2011. This table has been modified for NMLA with overall product specific adjustment factors.

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology (continued)

(h) Other participating business assumptions

Where benefits are contractually linked to the performance of the assets held, as is the case for participating business, a discount rate based on the expected market return on backing assets is used. The assumed earning rates for backing assets for participating business are largely driven by long-term (e.g. 10 year) government bond yields. The 10 year government bond yields used at the relevant valuation dates are as shown in the following table.

Assumed earning rates for each asset sector are determined by adding to the bond yield various risk premiums which reflect the relative differences in expected future earning rates for different asset sectors. For products backed by mixed portfolio assets, the assumption varies with the proportion of each asset sector backing the product. The risk premiums applicable at the valuation date are shown in the table below.

	10 year government bond yields	Risk premiums Local equities	International equities	Property & Infrastructure	Fixed interest	Cash
	%	%	%	%	%	%
31 December 2016						
Australia	2.8	4.5	3.5	2.5	0.7	(0.5)
New Zealand	3.4	4.5	3.5	2.5	0.1	(0.5)
31 December 2015						
Australia	2.9	4.5	3.5	2.5	0.8	(0.5)
New Zealand	3.6	4.5	3.5	2.5	0.0	(0.5)

The risk premiums for local equities include allowance for imputation credits. The risk premiums for fixed interest reflect credit ratings of the portfolio held.

The averages of the asset mixes assumed for the purpose of setting future investment assumptions for participating business at the valuation date are as shown in the table below for each life company. These asset mixes are not necessarily the same as the actual asset mix at the valuation date as they reflect long-term assumptions.

Average asset mix[1]	Equities %	Property & Infrastructure %	Fixed Interest %	Cash %
31 December 2016				
Australia	36	18	32	14
New Zealand	38	19	34	9
31 December 2015				
Australia	36	18	32	14
New Zealand	38	19	34	9

1 The asset mix in the table above includes only conventional business. 100% of investment profits on investment account business are allocated to policyholders.

Where an assumption used is net of tax, the tax on investment income is allowed for at rates appropriate to the class of business and asset sector, including any allowance for imputation credits on equity income. For this purpose, the total return for each asset sector is split between income and capital gains. The actual split has varied at each valuation date as the total return has varied.

For participating business, the total value of future bonuses (and the associated shareholders' profit margins) included in life insurance contract liabilities is the amount supported by the value of the supporting assets, after allowing for the assumed future experience. The pattern of bonuses and shareholders' profit margins assumed to emerge in each future year depends on the assumed relationship between reversionary bonuses (or interest credits) and terminal bonuses. This relationship is set to reflect the philosophy underlying actual bonus declarations.

Actual bonus declarations are determined to reflect, over time, the investment returns of the particular fund and other factors in the emerging experience and management of the business. These factors include:

- allowance for an appropriate degree of benefit smoothing
- reasonable expectations of policyholders
- equity between generations of policyholders applied across different classes and types of business
- ongoing capital adequacy.

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology (continued)

(h) Other participating business assumptions (continued)

Given the many factors involved, the range of bonus structures and rates for participating business is extremely diverse.

Typical supportable bonus rates on major product lines are as follows (31 December 2015 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
	%	%
Australia	0.4 - 1.0 (0.5 - 1.0)	0.8 - 1.5 (0.9 - 1.4)
New Zealand	0.8 (0.8)	1.1 (1.1)

Terminal bonus
The terminal bonus scales are complex and vary by duration, product line, class of business and country.

Crediting rates (investment account)	
	%
Australia	2.2 - 5.2 (3.1 - 7.9)
New Zealand	5.4 - 6.4 (5.9 - 7.4)

(i) Impact of changes in assumptions
Under MoS, for life insurance contracts valuations using the projection method, changes in assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are released over future periods.

Changes in assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both life insurance contract liabilities and asset values at the reporting date.

The impact on future profit margins of actual changes in assumptions from 31 December 2015 to 31 December 2016 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below.

Assumption change	Change in future profit margins $m	Change in life insurance contract liabilities[2] $m	Change in the shareholder's profit and equity[3] $m
Non-market related changes to discount rates	11	2	(1)
Mortality and morbidity	(66)	240	(168)
Discontinuance rates	(121)	19	(13)
Maintenance expenses	(55)	157	(110)
Other assumptions[1]	44	(84)	59

1 Other assumption changes include the impact of modelling, reinsurance, product and premium changes.

2 Change in life insurance contract liabilities is net of reinsurance, gross of tax.
3 Change in shareholders' profit and equity is net of reinsurance, net of tax.

In most cases, the overall amount of life insurance contract liabilities and the current period profit are not affected by changes in assumptions. However, where in the case of a particular related product group, the changes in assumptions at the end of a period eliminate any future profit margins for the related product group, and results in negative future profit margins, this negative balance for all forecasted future periods is recognised as a loss in the current period. If the changes in assumptions in a period are favourable for a product group currently in loss recognition, then the previously recognised losses are reversed in the period.

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk

(a) Life insurance risk

NMLA issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured, often in conjunction with the provision of wealth management products.

The products carrying insurance risk are designed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave NMLA open to claims from causes that were not anticipated. The variability inherent in insurance risk, including concentration risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are generally underwritten individually on their merits. Individual policies which are transferred from a group scheme are generally issued without underwriting. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

Claims are managed through a dedicated claims management team, with formal claims acceptance limits and appropriate training and development of staff with an objective to ensure payment of all genuine claims. Claims experience is assessed regularly and appropriate actuarial reserves are established to reflect up-to-date experience and any anticipated future events. This includes reserves for claims incurred but not yet reported.

NMLA reinsures (cedes) to reinsurance companies a proportion of its portfolio or certain types of insurance risk, including catastrophe. This serves primarily to:

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses
- reduce overall exposure to risk
- reduce the amount of capital required to support the business.

The reinsurance companies are regulated by the Australian Prudential Regulation Authority (APRA); or industry regulators in other jurisdictions and have strong credit ratings from A+ to AA+.

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk (continued)

(b) Key terms and conditions of life insurance contracts

The nature of the terms of the life insurance contracts written by NMLA is such that certain external variables can be identified on which related cash flows for claim payments depend. The following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance contracts issued by NMLA depend.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability)	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of the Life Companies. Premium rates for yearly renewable business are not guaranteed and may be changed at the discretion of the Life Companies for the portfolio as a whole.	Benefits are defined by the insurance contract and are not directly affected by the investment performance of any underlying assets.	Mortality, morbidity, lapses, expenses and investment market earning rates on assets backing the liabilities.
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured in exchange for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy allowing for any indexation.	Longevity, expenses, inflation and investment market earning rates on assets backing the liabilities.
Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)	The policyholder pays a regular premium and receives the specified sum insured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Bonuses are added annually, which once added are guaranteed. A further bonus may be added on surrender, death or maturity.	Benefits arising from the discretionary bonuses are based on the performance of a specified pool of contracts and the assets supporting these contracts.	Investment market earning rates on assets backing the liabilities, lapses, expenses and mortality.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance when due. Interest is credited regularly.	Payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse investment markets. Operating profit arising from these contracts is allocated between the policyholders and shareholders with not less than 80% allocated to policyholders. Distribution of policyholder profit is through an interest rate mechanism.	Fees, lapses, expenses and investment market earning rates on the assets backing the liabilities.

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk (continued)

(c) Insurance risk sensitivity analysis – life insurance contracts

For life insurance contracts that are accounted for under MoS, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins, unless the product is in or close to loss recognition.

This table shows information about the sensitivity of life insurance contract liabilities and current period shareholder profit after income tax and equity, to a number of possible changes in assumptions relating to insurance risk.

		Change in life insurance contract liabilities		Change in the shareholder profit after income tax and equity	
Variable	**Change in variable**	**Gross of reinsurance $m**	**Net of reinsurance $m**	**Gross of reinsurance $m**	**Net of reinsurance $m**
Mortality[1]	10% increase in mortality rates	11	8	(8)	(6)
Annuitant mortality	50% increase in the rate of mortality improvement	-	-	-	-
Morbidity - lump sum disablement	20% increase in lump sum disablement rates	77	63	(54)	(44)
Morbidity - disability income	10% increase in incidence rates	118	97	(83)	(68)
Morbidity - disability income	10% decrease in recovery rates	224	178	(157)	(125)
Discontinuance rates	10% increase in discontinuance rates	23	20	(16)	(14)
Maintenance expenses	10% increase in maintenance expenses	5	5	(3)	(3)

1 This includes the impact on death benefits that are payable on some disability income products.

(d) Liquidity risk and future net cash outflows

The following table shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries. All values are discounted to the reporting date using the assumed future investment earning rate for each product.

	Up to 1 year $m	1 to 5 years $m	Over 5 years $m	Total $m
2016	259	357	1,956	2,572
2015	283	456	1,887	2,626

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts

	2016 $m	2015 $m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	143	148
- Profits (losses) arising from difference between actual and assumed experience	(86)	41
- Profits (losses) arising from change in assumptions	(10)	6
- Capitalised (losses) reversals	(232)	-
Profit related to life insurance and investment contract liabilities	**(185)**	**195**
Attributable to:		
- Life insurance contracts	(225)	156
- Investment contracts	40	39
Profit related to life insurance and investment contract liabilities	**(185)**	**195**
Investment earnings on assets in excess of life insurance and investment contract liabilities	**41**	**37**

(b) Restrictions on assets in statutory funds

NMLA conducts investment-linked and non-investment linked business. For investment-linked business, deposits are received from policyholders, the funds are invested on behalf of the policyholders and the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities.

NMLA has six statutory funds as set out below:

No. 1 fund	Australia	Capital guaranteed ordinary business (whole of life, endowment, investment account and retail and group risk).
	New Zealand	All business (whole of life, endowment, investment account, retail and group risk, retail investment-linked and immediate annuities).
No. 2 fund	Australia	Investment-linked superannuation business (retail and group investment-linked and deferred annuities).
No. 3 fund	Taiwan	All business (individual whole of life, endowment and term and group life).
No. 4 fund	Australia	Capital guaranteed superannuation business (whole of life, endowment, investment account and retail (lump sum only) and group risk).
No. 5 fund	Australia	Investment-linked ordinary business.
No. 6 fund	Australia	North longevity guarantee.

Investments held in the life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions provided solvency, capital adequacy and other regulatory requirements are met.

The net assets of life statutory funds attributable to shareholders represent the interests of shareholders including funds required to meet regulatory requirements as well as further amounts of shareholder funds in excess of regulatory requirements.

Further details about solvency and capital adequacy are provided in Section 4.5 (d).

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(c) Capital guarantees

	2016 $m	2015 $m
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	3,273	3,576
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	44	48
Other life insurance contracts with a guaranteed termination value		
- Current termination value	84	88

(d) Capital requirements

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These reserving requirements are specified by the APRA prudential capital standards. The standards are intended to take account of the full range of risks to which a regulated institution is exposed and introduces the prescribed capital amount (PCA) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations.

In addition to the regulatory capital requirements, the company maintains a target surplus providing an additional capital buffer against adverse events. The company uses internal capital models to determine target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The excess of the company's capital base over the PCA as at 31 December 2016 was $502m (2015: $497m)

The Appointed Actuary confirmed that the capital base of each life statutory fund and shareholders' fund have exceeded PCA at all times during 2016 and 2015.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(d) Capital requirements (continued)

2016		No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	No 4 Statutory Fund $m	No 5 Statutory Fund $m	No 6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Capital Base									
Net assets as per Life Insurance Act	A	897	17	17	376	7	4	126	1,444
- Common equity Tier 1 Capital		897	17	17	376	7	4	26	1,344
- Additional Tier 1 Capital		n/a	n/a	n/a	n/a	n/a	n/a	100	100
Total regulatory adjustments to net assets	B	(253)	8	-	(287)	(1)	1	2	(530)
- Total regulatory adjustments to Common equity Tier 1 Capital		(253)	8	-	(287)	(1)	1	2	(530)
- Total regulatory adjustments to Additional Tier 1 Capital		n/a	n/a	n/a	n/a	n/a	n/a	-	-
Tier 2 Capital	C	57	6	-	22	-	-	-	85
Total regulatory adjustments to Tier 2 Capital	D	-	-	-	-	-	-	-	-
Total capital base	E(A+B+C+D)	701	31	17	111	6	5	128	999
Prescribed capital									
Insurance risk charge		199	-	-	25	-	-	-	224
Asset risk charge		131	13	-	15	1	-	2	162
Asset concentration risk charge		-	-	-	-	-	-	-	-
Operational risk charge		39	12	-	15	-	-	-	66
Less aggregation benefit		(71)	-	-	(8)	-	-	-	(79)
Combined stress scenario adjustment		118	-	-	6	-	-	-	124
Total Prescribed capital Amount (PCA)	F	416	25	-	53	1	-	2	497
Capital adequacy multiple	E/F	168%	124%	32615%	208%	582%	2589%	5548%	201%

2015		No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	No 4 Statutory Fund $m	No 5 Statutory Fund $m	No 6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Capital Base									
Net assets as per Life Insurance Act	A	910	31	17	400	7	5	181	1,551
- Common equity Tier 1 Capital		910	31	17	400	7	5	81	1,451
- Additional Tier 1 Capital		-	-	-	-	-	-	100	100
Total regulatory adjustments to net assets	B	(419)	1	-	(291)	(1)	1	(5)	(714)
- Total regulatory adjustments to Common equity Tier 1 Capital		(419)	1	-	(291)	(1)	1	(5)	(714)
- Total regulatory adjustments to Additional Tier 1 Capital		-	-	-	-	-	-	-	-
Tier 2 Capital	C	57	6	-	22	-	-	-	85
Total regulatory adjustments to Tier 2 Capital	D	-	-	-	-	-	-	-	-
Total capital base	E(A+B+C+D)	548	38	17	131	6	6	176	922
Prescribed capital									
Insurance risk charge		109	-	-	16	-	-	-	125
Asset risk charge		139	21	-	34	1	-	2	197
Asset concentration risk charge		-	-	-	-	-	-	-	-
Operational risk charge		35	12	-	16	-	-	-	63
Less aggregation benefit		(55)	-	-	(9)	-	-	-	(64)
Combined stress scenario adjustment		79	-	-	24	-	-	1	104
Total Prescribed capital Amount (PCA)	F	307	33	-	81	1	-	3	425
Capital adequacy multiple	E/F	179%	115%	34442%	164%	443%	2571%	5010%	217%

(e) Actuarial information

Mr Anton Kapel, the Appointed Actuary of NMLA, is satisfied as to the accuracy of the data used in the valuations in the financial report and in the tables in this note and note 4.3.

The liabilities to policyholders (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract), capital base and prescribed capital amounts have been determined at the reporting date in accordance with the Life Act.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(f) Disaggregated information

(i) Statement of comprehensive income by statutory fund and shareholders' fund

2016	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder								
Life insurance contract premium revenue - net of reinsurance	643	-	-	302	-	1	-	946
Fee revenue	6	111	-	28	3	-	15	163
Investment gains / (losses)	278	322	-	97	12	-	6	715
Life insurance contract claims expenses - net of reinsurance	(478)	-	-	(221)	-	-	-	(699)
Operating expenses	(265)	(57)	-	(107)	(2)	(1)	(15)	(447)
Finance costs	(4)	-	-	(2)	-	-	-	(6)
Change in policyholder liabilities								
- life insurance contracts	(419)	-	-	(34)	-	-	-	(453)
- investment contracts	(16)	(335)	-	(28)	(8)	-	-	(387)
Profit before income tax	**(255)**	**41**	**-**	**35**	**5**	**-**	**6**	**(168)**
Income tax expense	50	(5)	-	(11)	(4)	-	(1)	29
Net profit for the year	**(205)**	**36**	**-**	**24**	**1**	**-**	**5**	**(139)**

2015	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder								
Life insurance contract premium revenue - net of reinsurance	654	-	-	292	-	1	-	947
Fee revenue	7	122	-	44	3	-	-	176
Investment gains / (losses)	298	238	-	82	11	-	4	633
Life insurance contract claims expenses - net of reinsurance	(486)	-	-	(192)	-	-	-	(678)
Operating expenses	(229)	(70)	-	(103)	(3)	(1)	-	(406)
Finance costs	(5)	-	-	(1)	-	-	-	(6)
Change in policyholder liabilities								-
- life insurance contracts	(26)	-	-	2	-	-	-	(24)
- investment contracts	(19)	(257)	-	(43)	(7)	-	-	(326)
Profit / (loss) before income tax	**194**	**33**	**-**	**81**	**4**	**-**	**4**	**316**
Income tax expense	(67)	8	-	(18)	(3)	-	(3)	(83)
Net profit / (loss) for the year	**127**	**41**	**-**	**63**	**1**	**-**	**1**	**233**

The company's Australian and New Zealand life insurance business transferred to AMP Life from 1 January 2017
As described in Note 6.6, *Events occurring after reporting date,* on 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group. All of the business of Statutory Funds No.1, No.2, No.4, No.5 and No.6 and the financial activities of the Shareholders' Fund which relates to the activities of those statutory funds (FY16 net profit: $5m) were transferred.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(f) Disaggregated information (continued)

(ii) Statement of financial position by statutory fund and shareholders' fund

2016	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Elim-ination $m	Total $m
Assets									
Investments in financial assets	5,035	4,833	21	2,402	217	-	2	-	12,510
Other assets	844	30	5	154	2	9	167	(152)	1,059
Total assets of policyholders and the shareholder	**5,879**	**4,863**	**26**	**2,556**	**219**	**9**	**169**	**(152)**	**13,569**
Liabilities									
Life insurance contract liabilities[1]	4,119	-	8	1,962	-	5	-	-	6,094
Investment contract liabilities[1]	230	4,762	-	-	179	-	-	-	5,171
Other liabilities	634	85	1	218	32	-	42	(152)	860
Total liabilities of policyholders and the shareholder	**4,983**	**4,847**	**9**	**2,180**	**211**	**5**	**42**	**(152)**	**12,125**
Net assets	**896**	**16**	**17**	**376**	**8**	**4**	**127**	**-**	**1,444**
Equity									
Contributed equity	704	-	17	228	7	3	200	-	1,159
Reserves	26	-	-	-	-	-	(89)	-	(63)
Retained earnings / (Accumulated loss)	166	16	-	148	1	1	16	-	348
Total equity	**896**	**16**	**17**	**376**	**8**	**4**	**127**	**-**	**1,444**

2015	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Elim-ination $m	Total $m
Assets									
Investments in financial assets	4,897	4,897	21	2,643	224	-	4	-	12,686
Other assets	682	148	4	165	2	9	453	(374)	1,089
Total assets of policyholders and the shareholder	**5,579**	**5,045**	**25**	**2,808**	**226**	**9**	**457**	**(374)**	**13,775**
Liabilities									
Life insurance contract liabilities[1]	3,665	-	8	2,214	-	5	-	-	5,892
Investment contract liabilities[1]	240	4,740	-	-	187	-	-	-	5,167
Other liabilities	764	274	-	194	31	-	276	(374)	1,165
Total liabilities of policyholders and the shareholder	**4,669**	**5,014**	**8**	**2,408**	**218**	**5**	**276**	**(374)**	**12,224**
Net assets	**910**	**31**	**17**	**400**	**8**	**4**	**181**	**-**	**1,551**
Equity									
Contributed equity	203	-	19	218	14	3	469	-	926
Reserves	19	-	-	-	-	-	(90)	-	(71)
Retained earnings / (Accumulated loss)	688	31	(2)	182	(6)	1	(198)	-	696
Total equity	**910**	**31**	**17**	**400**	**8**	**4**	**181**	**-**	**1,551**

1 Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately $1,915m (2015: $1,915m) of policy liabilities may be settled within 12 months of the reporting date.

The company's Australian and New Zealand life insurance business transferred to AMP Life from 1 January 2017
As described in Note 6.6, *Events occurring after reporting date*, on 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group. All of the business of Statutory Funds No.1, No.2, No.4, No.5 and No.6 and the financial activities of the Shareholders' Fund which relates to the activities of those statutory funds (FY16 total assets: $13.4m; total liabilities $12.0m) were transferred.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(f) Disaggregated information (continued)

(iii) Retained earnings by statutory fund and shareholders' fund

2016	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening retained earnings	688	31	(2)	182	(6)	1	(198)	696
Net profit / (loss) for the year	(205)	36	-	24	1	-	5	(139)
Transfer between statutory and shareholder's fund	(317)	(51)	2	(58)	6	-	418	-
Dividends and distributions paid	-	-	-	-	-	-	(209)	(209)
Closing retained earnings / (accumulated losses)	**166**	**16**	**-**	**148**	**1**	**1**	**16**	**348**

2015	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening retained earnings	616	26	(2)	132	(7)	1	(123)	643
Net profit for the year	127	41	-	63	1	-	1	233
Transfer between statutory and shareholder's fund	(55)	(36)	-	(13)	-	-	104	-
Dividends paid	-	-	-	-	-	-	(180)	(180)
Closing retained earnings / (accumulated losses)	**688**	**31**	**(2)**	**182**	**(6)**	**1**	**(198)**	**696**

(iv) Contributed equity by statutory fund and shareholders' fund

2016	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening contributed equity	203	-	19	218	14	3	469	926
Transfer between statutory and shareholder's fund	501	-	(2)	10	(7)	-	(502)	-
Ordinary share capital issued	-	-	-	-	-	-	233	233
Return of ordinary share capital	-	-	-	-	-	-	-	-
Capital Notes issued	-	-	-	-	-	-	-	-
Closing contributed equity	**704**	**-**	**17**	**228**	**7**	**3**	**200**	**1,159**

2015	No.1 Statutory Fund $m	No.2 Statutory Fund $m	No.3 Statutory Fund $m	No.4 Statutory Fund $m	No.5 Statutory Fund $m	No.6 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening contributed equity	269	-	19	217	14	3	394	916
Transfer between statutory and shareholder's fund	(66)	-	-	1	-	-	65	-
Return of ordinary share capital	-	-	-	-	-	-	(90)	(90)
Capital Notes issued	-	-	-	-	-	-	100	100
Closing contributed equity	**203**	**-**	**19**	**218**	**14**	**3**	**469**	**926**

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(f) Disaggregated information (continued)

(v) Statement of comprehensive income by non-investment linked and investment linked

2016	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	946	-	946	-	946
Fee revenue	34	114	148	15	163
Other revenue	-	-	-	-	-
Investment gains	375	334	709	6	715
Life insurance contract related expenses - net of reinsurance	(699)	-	(699)	-	(699)
Operating expenses	(373)	(59)	(432)	(15)	(447)
Finance costs	(6)	-	(6)	-	(6)
Change in policyholder liabilities					
- life insurance contracts	(453)	-	(453)	-	(453)
- investment contracts	(44)	(343)	(387)	-	(387)
Profit before income tax	**(220)**	**46**	**(174)**	**6**	**(168)**
Income tax expense	39	(9)	30	(1)	29
Net profit for the year	**(181)**	**37**	**(144)**	**5**	**(139)**

2015	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	947	-	947	-	947
Fee revenue	51	125	176	-	176
Investment gains	380	249	629	4	633
Life insurance contract related expenses - net of reinsurance	(678)	-	(678)	-	(678)
Operating expenses	(333)	(73)	(406)	-	(406)
Finance costs	(6)	-	(6)	-	(6)
Change in policyholder liabilities					
- life insurance contracts	(24)	-	(24)	-	(24)
- investment contracts	(62)	(264)	(326)	-	(326)
Profit before income tax	**275**	**37**	**312**	**4**	**316**
Income tax expense	(85)	5	(80)	(3)	(83)
Net profit for the year	**190**	**42**	**232**	**1**	**233**

1 The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through inclusion of the company's New Zealand Branch.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(f) Disaggregated information (continued)

(vi) Statement of financial position by non-investment linked and investment linked

2016	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Elim-ination $m	Total $m
Assets						
Investments in financial assets	7,458	5,050	12,508	2	-	12,510
Other assets	1,012	32	1,044	167	(152)	1,059
Total assets of policyholders and the shareholdei	**8,470**	**5,082**	**13,552**	**169**	**(152)**	**13,569**
Liabilities						
Life insurance contract liabilities	6,094	-	6,094	-	-	6,094
Investment contract liabilities	230	4,941	5,171	-	-	5,171
Other liabilities	853	117	970	42	(152)	860
Total liabilities of policyholders and the sharehold	**7,177**	**5,058**	**12,235**	**42**	**(152)**	**12,125**
Net assets	**1,293**	**24**	**1,317**	**127**	**-**	**1,444**
Equity						
Contributed equity	952	7	959	200	-	1,159
Reserves	26	-	26	(89)	-	(63)
Retained earnings / (Accumulated loss)	315	17	332	16	-	348
Total equity	**1,293**	**24**	**1,317**	**127**	**-**	**1,444**

1. The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through inclusion of the company's New Zealand Branch.

2015	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Elim-ination $m	Total $m
Assets						
Investments in financial assets	7,561	5,121	12,682	4	-	12,686
Other assets	860	150	1,010	453	(374)	1,089
Total assets of policyholders and the shareholdei	**8,421**	**5,271**	**13,692**	**457**	**(374)**	**13,775**
Liabilities						
Life insurance contract liabilities	5,892	-	5,892	-	-	5,892
Investment contract liabilities	240	4,927	5,167	-	-	5,167
Other liabilities	958	305	1,263	276	(374)	1,165
Total liabilities of policyholders and the sharehold	**7,090**	**5,232**	**12,322**	**276**	**(374)**	**12,224**
Net assets	**1,331**	**39**	**1,370**	**181**	**-**	**1,551**
Equity						
Contributed equity	443	14	457	469	-	926
Reserves	19	-	19	(90)	-	(71)
Retained earnings / (Accumulated loss)	869	25	894	(198)	-	696
Total equity	**1,331**	**39**	**1,370**	**181**	**-**	**1,551**

1. The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through inclusion of the company's New Zealand Branch.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(f) Disaggregated information (continued)

(vii) Retained earnings by non-investment linked and investment linked

2016	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Opening retained earnings	869	25	894	(198)	696
Net profit for the year	(181)	37	(144)	5	(139)
Transfer between statutory and shareholder's fund	(373)	(45)	(418)	418	-
Dividends and distributions paid	-	-	-	(209)	(209)
Closing retained earnings / (accumulated losses)	**315**	**17**	**332**	**16**	**348**

2015	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Opening retained earnings	747	19	766	(123)	643
Net profit for the year	190	42	232	1	233
Transfer between statutory and shareholder's fund	(68)	(36)	(104)	104	-
Dividends paid	-	-	-	(180)	(180)
Closing retained earnings / (accumulated losses)	**869**	**25**	**894**	**(198)**	**696**

1.The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through consolidation of the company's New Zealand Branch.

(viii) Contributed equity by non-investment linked and investment linked

2016	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Opening contributed equity	443	14	457	469	926
Transfer between statutory and shareholder's fund	509	(7)	502	(502)	-
Ordinary share capital issued	-	-	-	233	233
Return of ordinary share capital	-	-	-	-	-
Capital Notes issued	-	-	-	-	-
Closing contributed equity	**952**	**7**	**959**	**200**	**1,159**

2015	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Opening contributed equity	508	14	522	394	916
Transfer between statutory and shareholder's fund	(65)	-	(65)	65	-
Return of ordinary share capital	-	-	-	(90)	(90)
Capital Notes issued	-	-	-	100	100
Closing contributed equity	**443**	**14**	**457**	**469**	**926**

1. The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through consolidation of the company's New Zealand Branch.

Section 5: Related party disclosures

5.1 Controlled entities

(a) Significant investments in controlled operating entities are as follows:

Details of significant investments of controlled entities in Shareholder's fund are as follows:

Name of entity	Country of incorporation	Footnote	Share type	Ownership interest 2016 (%)	Ownership interest 2015 (%)
AAPH Hong Kong Finance Limited	Hong Kong	1	Ord	-	100
National Mutual Life Nominees Limited	Australia		Ord	100	100

1 Deregistered in 2016

(b) Investments in investment entities controlled by NMLA insurance entities' statutory funds

The life insurance statutory funds hold investments in various investment vehicles/funds backing policyholder liabilities as well as shareholder attributable assets in the life insurance statutory funds. The policyholder attributable investments are not part of the core wealth management business of NMLA and do not have a material impact on the financial performance or net financial position of the company. The investments are measured at fair value through profit and loss reflecting the fair value movements in these investments in the financial statements.

Critical accounting estimates and judgements:

Judgement is applied in determining the relevant activities of each entity, whether AMP Limited has power over these activities and whether control exists. This involves assessing the purpose and design of the entity and identifying the activities which significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights, contractual arrangements with the entity or other parties, and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Management also considers the practical ability of other parties to exercise their rights.

Judgement is also applied in identifying the variable returns of each entity and assessing AMP Limited's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

5.2 Acquisitions and disposals of controlled entities

Acquisition of controlled entities of NMLA insurance entities' statutory funds
In the course of normal operating investment activities, NMLA insurance entities' statutory funds acquire equity interests in entities which, in some cases, result in NMLA holding a controlling interest in the investee entity.

Most acquisitions and disposals of controlled entities are in relation to managed investment schemes with underlying net assets typically comprising investment assets including cash. The consideration for acquisitions or disposals reflects the fair value of the investment assets at the date of the transactions after taking into account minority interests.

Certain controlled entities of the life entities' statutory funds are operating companies which carry out business operations unrelated to the core wealth management operations of the AMP group.

There were no significant acquisitions or disposals of controlled entities of NMLA insurance entities' statutory funds in 2016 or 2015.

Section 5: Related party disclosures

5.3 Investments in associates

Investments in significant associates held by the life entity's statutory funds measured at fair value through profit or loss

The life insurance statutory funds hold investments in various investment vehicles/funds on behalf of policyholders. These investments are not part of the core wealth management business of NMLA and do not have a material impact on the financial performance or net financial position of the company.

Accounting Policy – recognition and measurement

Investments in associates
Investments in associates measured at fair value through profit or loss
Investments in entities held to back investment contract liabilities and life insurance contract liabilities are exempt from the requirement to apply equity accounting and have been designated on initial recognition as financial assets measured at fair value through profit or loss.

5.4 Parent entities

The parent entity is AMP AAPH Limited and the company's ultimate parent entity is AMP Limited.

5.5 Key management personnel

(a) Compensation of key management personnel[1]

	2016 $	2015 $
Short term benefits	4,715,214	5,718,022
Post-employment benefits	245,256	192,929
Share based payments	3,674,929	2,837,693
Other long-term benefits	75,138	141,334
Termination Benefits	291,486	-
Total	9,002,023	8,889,978

1 For key management personnel of the company who are also key management personnel of AMP Limited, the amounts include compensation from AMP Limited.

(b) Key management personnel access to AMP's products

During the year, key management personnel and their personally related entities may also have had access to the following AMP products. They are provided to key management personnel within normal employee terms and conditions. The products include, personal banking with AMP Bank Limited, the purchase of AMP insurance and investment products and financial investment services.

Information about such transactions does not have the potential to affect adversely decisions about the allocation of scarce resources made by users of this financial report, or the discharge of accountability by the specified executives or specified directors.

Accounting policy – recognition and measurement

Short-term benefits - Liabilities arising in respect of salaries and wages and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts.

Post-employment benefits - Defined contribution funds - The contributions paid and payable by AMP group to defined contributions funds are recognised in the Income statement as an operating expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other long-term benefits - Other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, discount rates are determined with reference to market yields at the end of the reporting period on high quality corporate bonds.

Section 5: Related party disclosures

5.6 Transactions with related parties

The company has transactions with related parties including controlled entities and associated entities.

Most of those related parties are various investment vehicles/funds and the activities with those parties are part of the normal day to day investment activities of the company.

Other related party transactions are in respect of administrative services, investment management services and financial planning services provided by fellow controlled entities in the AMP group. Balances with other related parties that are material are set out in the table below.

Transactions with related parties are made at arm's length on normal commercial terms.

Fellow subsidiaries of AMP Limited		Service, management and other fees received from related parties $'000	Service, management and other fees paid to related parties $'000	Amounts owed by related parties $'000	Amounts owed to related parties $'000
AMP Capital Investors Limited	2016	-	3,204	2,000	5,000
	2015	-	1,237	652	-
AMP Limited	2016	-	4,032	-	85,134
	2015	-	4,235	-	85,289
AMP Life Limited	2016	-	-	-	1,378
	2015	-	-	6,485	-
AMP Services Limited	2016	-	161,711	-	28,047
	2015	-	163,719	-	26,234
AMP Services (NZ) Limited	2016	-	37,387	-	1,238
	2015	-	33,960	-	1,614
Charter Financial Planning Limited	2016	-	45,634	14,100	-
	2015	-	55,791	12,301	-
Hillross Financial Services Limited	2016	-	-	-	1,990
	2015	-	-	-	1,921
ipac Asset Management Limited	2016	7,662	-	2,740	-
	2015	8,218	-	10,972	-
ipac Securities Limited	2016	-	-	1,000	15,000
	2015	-	-	-	15,070
National Mutual Funds Management Limited	2016	-	13,748	-	4,988
	2015	1,393	14,355	-	1,923
NMMT Limited	2016	-	-	15,007	-
	2015	-	-	14,708	-

Section 6: Other disclosures

- 6.1 Notes to Statement of cash flows
- 6.2 Contingent liabilities
- 6.3 Leases
- 6.4 Auditors' remuneration
- 6.5 New accounting standards
- 6.6 Subsequent events occurring after reporting date

6.1 Notes to Statement of cash flows

(a) Reconciliation of cash flow from operation activities

	2016 $m	2015 $m
(a) Reconciliation of the net profit after income tax to cash flows from operating activities		
(Net loss) / profit for the year	(139)	233
Depreciation of operating assets	1	1
Amortisation of intangibles	-	1
Investment gains and losses	85	(65)
Dividend and distribution income reinvested	(607)	(433)
Decrease in receivables and other assets	13	10
Increase / (decrease) in net policy liabilities	206	(497)
Decrease in income tax balances	(93)	(13)
Decrease in other payables and provisions	(43)	(6)
Cash flows used in operating activities	**(577)**	**(769)**

	2016 $m	2015 $m
(b) Reconciliation of cash		
Cash and cash equivalents for the purpose of the Statement of financial position	148	183
Short term bills and notes (included in Debt securities)	9	9
Cash and cash equivalents for the purpose of the Statement of cash flows	**157**	**192**

Accounting policy – recognition and measurement

Cash and cash equivalents
Cash and cash equivalents comprise cash-on-hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount. For the purpose of the Statement of cash flows, Cash and cash equivalents also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity.

Section 6: Other disclosures

6.2 Contingent liabilities

From time to time NMLA may incur obligations arising from litigation or various types of contracts entered into in the normal course of business, including guarantees issued by the parent for performance obligations to controlled entities in NMLA. Where it is determined that the disclosure of information in relation to a contingent liability can be expected to seriously prejudice the position of NMLA (or its insurers) in a dispute, accounting standards allow NMLA not to disclose such information and it is NMLA's policy that such information is not to be disclosed in this note.

At the reporting date there were no other material contingent liabilities where the probability of any outflow in settlement was greater than remote.

6.3 Leases

	2016 $m	2015 $m
Operating lease commitments (non-cancellable)		
No later than one year	23	22
Later than one year and not later than five years	45	67
Later than five years	-	-
Total operating lease commitments	**68**	**89**

6.4 Auditors' remuneration

	2016 $'000	2015 $'000
Audit services for NMLA		
Audit of subsidiary financial statements	39	9
Other audit services[1]	50	49
Total audit service fees[2]	89	58

1 Other audit services includes fees for compliance audits for NMLA and entities controlled by NMLA.
2 Other fee for service provided by the auditor including the full year audit and half year review are paid on the company's behalf by a related entity within the AMP Limited Group.

Section 6: Other disclosures

6.5 New accounting standards

a) New and amended accounting standards adopted by the Group

A number of new accounting standards and amendments have been adopted effective 1 January 2016. These have not had a material effect on the financial position or performance of NMLA.

b) New Accounting Standards issued but not yet effective

A number of new accounting standards and amendments have been issued but are not yet effective, none of which have been early adopted by NMLA in this financial report. These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of NMLA, other than as set out below.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for periods beginning on 1 January 2018. AASB 15 defines principles for recognising revenue and introduces new disclosure requirements. From NMLA's perspective, AASB 15 will primarily apply to fee revenue as life insurance premium and related revenue will continue to fall outside the scope of AASB 15 and will be accounted for under other applicable standards.

Under AASB 15, revenue will be recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. NMLA is currently undertaking an assessment of the potential impact of this standard, and is not considering early adoption of AASB 15.

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* (AASB 9) is effective for periods beginning on 1 January 2018. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected loss model when recognising expected credit losses on financial assets, and also introduces new general hedge accounting requirements.

NMLA is currently undertaking an assessment of the potential impact of this standard. The potential impact to NMLA is unlikely to be material.

NMLA is not considering early adoption of AASB 9.

AASB 16 *Leases*

AASB 16 *Leases* (AASB 16) is effective for periods beginning on 1 January 2019. AASB 16 requires lessees to recognise most leases on balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets.

NMLA is currently undertaking an assessment of the potential impact of this standard. The potential impact to NMLA is unlikely to be material.

NMLA is not considering early adoption of AASB 16.

Section 6: Other disclosures

6.6 Events occurring after reporting date

Transfer of NMLA Australian and New Zealand life insurance business to AMP Life

On 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life Limited ("AMP Life"), a fellow wholly owned controlled entity of the AMP Limited Group.

The transfer was completed using a scheme ("Scheme") under Part 9 of the Life Insurance Act 1995 in Australia and s44-53 of the Insurance (Prudential Supervision) Act 2010 in New Zealand. The Scheme was approved by regulators in Australia and New Zealand and confirmed by the Federal Court of Australia.

The transfer involved all of the Australian and New Zealand life policies and insurance liabilities of NMLA, as well as certain assets and liabilities related to that business. Following the transfer, AMP Life assumes all rights and obligations of the transferred NMLA policies.

Assets of $13.4 billion and liabilities of $12.0 billion were transferred at their carrying values in NMLA immediately prior to the transfer. Because NMLA and AMPL have the same accounting policies for these assets and liabilities, there were no adjustments to the carrying values of the transferred assets and liabilities. NMLA and AMP Life have accounted for the transfer as equity transactions with their respective parents whereby the net assets decrease in NMLA and the net assets increase in AMP Life of $1.4 billion have been treated as changes in equity and there was no impact on profit and loss from the transfer transaction.

Capital return to the parent entity
On 3 February 2017, the board approved an $18m capital return to AMP AAPH Limited.

Other

Other than the matters discussed above, as at the date of this report, the directors are not aware of any matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect:

- The operations of the company in future years;
- The results of those operations in future years; or
- The state of affairs of the company in future financial years.

Directors' declaration

for the year ended 31 December 2016

In accordance with a resolution of the directors of NMLA, for the purposes of Section 295(4) of the *Corporations Act 2001*, the Directors declare that:

a) in the opinion of directors there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

b) in the opinion of directors the financial statements and notes for the financial year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including Section 296 (compliance with accounting standards) and Section 297 (true and fair view); and

c) the notes to the financial statements for the financial year ended 31 December 2016 include an explicit and unreserved statement of compliance with the International Financial Reporting Standards.

Trevor Matthews
Director

Megan Beer
Director

Sydney, 8 February 2017

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working world

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Independent auditor's report to the members of The National Mutual Life Association of Australasia Limited

Opinion

We have audited the financial report of The National Mutual Life Association of Australasia Limited (the Company), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of The National Mutual Life Association of Australasia Limited is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

Kieren Cummings
Partner
Sydney
8 February 2017