The National Mutual Life Association of Australasia Limited

ABN 72 004 020 437

Directors' report and Financial report for the year ended 31 December 2018

Directors' Report

for the year ended 31 December 2018

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 2018.

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	
Megan Beer	Managing Director	
Geoffrey Roberts	Non-executive Director	Appointed 09 May 2018
Andrew Harmos	Non-executive Director	
Michael Wilkins	Non-executive Director	
Craig Meller	Executive Director	Resigned 20 April 2018
Holly Kramer	Non-executive Director	Appointed 20 April 2018, resigned 08 May 2018

Principal activities

NMLA provides a limited range of products and services to customers in Taiwan. 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 2018 was a profit after tax of $517k (2017: $36,135k).

Dividends and distributions

There were no dividends or distributions paid in 2018.

Significant changes in the state of affairs

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

Events occurring after reporting date

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.

Likely developments

Information about likely developments in the operations of the company and the expected results of those operations in future years 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 fund, the company gives priority to the interests of the policyholders over the interests of the shareholder.

Indemnification and insurance of directors and officers
Under its constitution, the company indemnifies, to the extent permitted by law, all current and former officers of the company (including the directors) against any liability (including the reasonable costs and expenses of defending proceedings 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 or on behalf of the AMP Limited Board.

During (and since the end of) the financial year ended 31 December 2018, AMP Limited (the company's ultimate parent company) maintained, and paid the premium for, directors' and officers' and company reimbursement insurance for the benefit of all of the officers of the AMP group (including each director, secretary and senior manager of the company) against certain liabilities as permitted by the Corporations Act 2001. The insurance policy prohibits disclosure of the nature of the liabilities covered, the amount of the premium payable, the limit of liability and other terms.

In addition, AMP Group Holdings Limited ("AMPGH") and each of the current and former directors and secretaries of the company are parties to deeds of indemnity, insurance and access. Those deeds provide that:

- those officers will have access to certain board papers and records of the company (and of certain other AMP group companies and external companies) for their period of office and for at least ten (or, in certain cases, seven) years after they cease to hold office (subject to certain conditions);
- AMPGH indemnifies the relevant officers to the extent permitted by law, and to the extent and for the amount that the relevant officer is not otherwise entitled to be, and is not actually, indemnified by another person;
- The indemnity covers liabilities (including legal costs) incurred by the relevant officer in their capacity as a current or former director or secretary (and, in the case of directors, as an officer or specified representative) of the company, or of another AMP group company or, in certain cases, of an external company (where the person holds the relevant position at an AMP group company's request); and
- The AMP group will maintain directors' and officers' insurance cover for those officers, to the extent permitted by law, for the period of their office and for at least ten years after they cease to hold officer.

Indemnification of auditors
To the extent permitted by law, the company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit, other than where the claim is determined to have resulted from breach or any negligent, wrongful or wilful act or omission by or of Ernst & Young. No payment has been made to indemnify Ernst & Young during or since the financial year ended 31 December 2018.

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 2018.

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 thousand Australian dollars, unless stated otherwise.

Signed in accordance with a resolution of the directors.

Trevor Matthews	Megan Beer
Chairman	Managing director

Sydney, 22 March 2019

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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 National Mutual Life Association of Australasia Limited for the financial year ended 31 December 2018, 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
22 March 2019

THE NATIONAL MUTUAL LIFE ASSOCIATION OF AUSTRALASIA LIMITED

ABN 72 004 020 437

FULL YEAR FINANCIAL REPORT

31 DECEMBER 2018

TABLE OF CONTENTS

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 2018

	Note	2018 $'000	2017 $'000
Income and expenses of the shareholder and policyholders			
Life insurance contract premium revenue	4.2	228	238
Investment management fees		-	10,787
Interest income and net gains on financial assets and liabilities at fair value through profit or loss		1,105	711
Foreign currency gains on disposal of foreign operations		-	39,145
Life insurance contract related expenses	4.2	(368)	(469)
Fee expenses		(23)	(10,787)
Other operating expenses including staff expenses and professional fees		(1,152)	(862)
Change in policyholder liabilities of life insurance contracts	4.2	859	(2,620)
Income tax expense	1.1	(132)	(8)
Profit for the year		**517**	**36,135**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations			
- Foreign currency gains on disposal of foreign operations recycled to profit or loss		-	(39,145)
- Foreign exchange (gains) losses		64	(104)
Total comprehensive income (loss) for the year		**581**	**(3,114)**

Statement of financial position

as at 31 December 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents		69,141	69,645
Receivables	2.2	2,365	2,173
Intercompany tax receivable		225	-
Investments in financial assets	2.1	25,252	19,323
Deferred tax assets	1.1	2,172	2,629
Prepayments		43	70
Total assets of policyholders and the shareholder		**99,198**	**93,840**
Liabilities			
Payables	2.3	56,846	49,551
Intercompany tax payable		18	2,770
Provisions	1.2	8,971	8,656
Life insurance contract liabilities	4.2	10,662	10,743
Total liabilities of policyholders and the shareholder		**76,497**	**71,720**
Net assets of the shareholder of The National Mutual Life Association of Australasia Limited		**22,701**	**22,120**
Equity			
Contributed equity	3.1	106,447	106,447
Reserves		(98)	(162)
Retained earnings		(83,648)	(84,165)
Total equity of the shareholder of The National Mutual Life Association of Australasia Limited		**22,701**	**22,120**

Statement of changes in equity

for the year ended 31 December 2018

	Note	Contributed equity $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity $'000
2018					
Balance at the beginning of the year		106,447	(162)	(84,165)	22,120
Profit		-	-	517	517
Other comprehensive income		-	64	-	64
Total comprehensive income		-	64	517	581
Return of capital	3.1	-	-	-	-
Transferred to AMP Life		-	-	-	-
Balance at the end of the year		**106,447**	**(98)**	**(83,648)**	**22,701**
2017					
Balance at the beginning of the year		1,158,584	(64,965)	349,942	1,443,561
Profit		-	-	36,135	36,135
Other comprehensive loss		-	(39,249)	-	(39,249)
Total comprehensive loss		-	(39,249)	36,135	(3,114)
Return of capital	3.1	(18,000)	-	-	(18,000)
Transferred to AMP Life		(1,034,137)	104,052	(470,242)	(1,400,327)
Balance at the end of the year		**106,447**	**(162)**	**(84,165)**	**22,120**

Statement of cash flows

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		8,014	21,683
Interest and other items of a similar nature received		1,179	1,213
Cash payments in the course of operations		(883)	(36,804)
Income tax (paid) / refund		(2,652)	61,260
Cash flows generated from operating activities	6.1	**5,658**	**47,352**
Cash flows from investing activities			
Payments to acquire investments in financial assets		(6,449)	(12,982)
Cash flows used in investing activities		(6,449)	**(12,982)**
Cash flows from financing activities			
Payment for the return of share capital	3.1	-	(18,000)
Cash flows used in financing activities		**-**	**(18,000)**
Net (decrease) increase in cash and cash equivalents		**(791)**	**16,370**
Cash and cash equivalents at the beginning of the year		69,645	53,378
Effect of exchange rate changes on cash and cash equivalents		287	(103)
Cash and cash equivalents at the end of the period		**69,141**	**69,645**

About this report

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

The National Mutual Life Association of Australasia Limited (‘NMLA or ‘the company’), a registered life insurance 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 a statutory fund and relates to the provision of life insurance products to a small number of Taiwanese policyholders. The corresponding liabilities to policyholders are classified as 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 2018 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.

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 thousand dollars ($000), unless otherwise stated,
- has been prepared on a going concern basis using an historical cost basis except for assets and liabilities associated with life insurance contracts in the Statement of financial position which are generally measured on a fair value basis;
- 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; and
- presents reclassified comparative information where required for consistency with the current year’s presentation.

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.

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

The financial statements for the year ended 31 December 2018 were authorised for issue on 22 March 2019 in accordance with a resolution of the directors.

About this report

(b) 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.

(c) 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 1.1	Taxes	8
Fair value of financial assets	Note 2.1	Investments in financial instruments	11
Life insurance contract liabilities	Note 4.1	Accounting for life insurance contracts	23

Section 1: Results for the year

- 1.1 Taxes
- 1.2 Provisions

1.1 Taxes

(a) Income tax expense
The income tax expense amount reflects the impact of income tax attributable to shareholders, the tax rate which applies is 30% in Australia.

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.

	2018 $'000	2017 $'000
Profit before income tax	649	36,143
Prima facie tax expense at the rate of 30% (2017: 30%)	(195)	(10,843)
Non-taxable income	(54)	10,703
Over provided in previous years	117	132
Income tax expense	**(132)**	**(8)**

(b) Analysis of income tax expense

	2018 $'000	2017 $'000
Current tax credit (expense)	208	(443)
(Decrease) increase in deferred tax assets	(457)	303
Over provided in previous years	117	132
Income tax expense	**(132)**	**(8)**

(c) Analysis of deferred tax balances

	2018 $'000	2017 $'000
Analysis of deferred tax assets		
Expenses deductible in future years	2,172	2,629
Total deferred tax assets	**2,172**	**2,629**

Section 1: Results for the year

1.1 Taxes (continued)

Accounting policy – recognition and measurement

Income tax expense
Income tax (expense) credit is the tax (payable) receivables on taxable (income) loss 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.

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 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 Taiwan 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

1.2 Provisions

	2018 $'000	2017 $'000
Employee entitlements[1]	8,103	7,867
Other[2]	868	789
Total provisions	**8,971**	**8,656**

31 December 2018	Employee entitlements $'000	Other $'000	Total $'000
Movements in provisions			
Balance at the beginning of the year	7,867	789	8,656
Additional provisions made during the year	5,383	79	5,462
Unused amounts reversed during the year	(925)	-	(925)
Provisions used during the year	(4,222)	-	(4,222)
Balance at the end of the year	**8,103**	**868**	**8,971**

1 Provisions for employee entitlements are in respect of amounts accumulated as a result of employees rendering services up to the reporting date. These entitlements include salaries, wages, bonuses, annual leave and long service leave, but exclude share based payments. $267k (2017: $1,117k) of the balance is expected to be settled more than 12 months from the reporting date.

2 Other provisions are current.

Accounting policy – recognition and measurement

Provisions
Provisions are recognised when:

- NMLA has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Section 2: Investments and working capital

- 2.1 Investments in financial instruments
- 2.2 Receivables
- 2.3 Payables
- 2.4 Fair value information

2.1 Investments in financial instruments

	2018 $'000	2017 $'000
Financial assets measured at fair value through profit or loss		
Debt securities	11,009	5,827
Investments in unlisted managed investment schemes[1]	13,606	12,659
Total financial assets measured at fair value through profit or loss	**24,615**	**18,486**
Financial assets measured at amortised cost		
Debt securities	637	837
Total financial assets measured at amortised cost	**637**	**837**
Total investments in financial assets	**25,252**	**19,323**

1. Includes investments in controlled entity of $40k (2017: $40K).

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.

Financial assets measured at amortised cost – debt securities
Debt securities are measured at amortised cost when both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. These assets are subsequently recognised at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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.

Section 2: Investments and working capital

Impairment of financial assets
An allowance for expected credit losses (ECLs) is recognised for financial assets not held at fair value through profit or loss. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. The key elements in the measurement of ECLs are as follows.

- PD - The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD - Loss given default is an estimate of the loss arising in the case where default occurs at a given time. It is based on the difference between cashflows due to the company in accordance with the contract and the cashflows that the company expects to receive, including from the realisation of any collateral.

The company has adopted the methodology used by the AMP Limited Group (“AMP group”), which estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc. The ECL calculated for debt securities is less than $1,000.

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.

Impairment
The impairment provisions (individual and collective) are outputs of ECL models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. Elements of the ECL models that are considered accounting estimates and judgements include:

- AMP group’s internal grading which assigns PDs to the individual grades
- AMP group’s criteria for assessing if there has been a significant increase in credit risk
- Development of ECL models, including the various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Section 2: Investments and working capital

2.2 Receivables

	2018 $'000	2017 $'000
Investment related receivable	-	159
Other receivables		
- related entities	111	295
- other entities	2,254	1,719
Total receivables	**2,365**	**2,173**
Current	*452*	*294*
Non-current	*1,913*	*1,879*

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 amortised cost, less any allowance for Expected Credit Loss (ECLs).

NMLA applies a simplified approach in calculating ECLs for receivables. Therefore, NMLA does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. NMLA has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Section 2: Investments and working capital

2.3 Payables

	2018 $'000	2017 $'000
Investment related payables	10	-
Other payables		
- related entities	56,315	48,555
- other entities	521	996
Total payables	**56,846**	**49,551**
Current	*56,846*	*49,551*
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.

2018	Carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Financial assets measured at fair value					
Debt securities	11,009	-	11,009	-	11,009
Investments in unlisted managed investment schemes	13,606	-	13,606	-	13,606
Total financial assets measured at fair value	**24,615**	**-**	**24,615**	**-**	**24,615**
Financial assets not measured at fair value					
Debt securities	637	-	637	-	637
Total financial assets not measured at fair value	**637**	**-**	**637**	**-**	**637**

2017	Carrying amount $000s	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total fair value $000s
Financial assets measured at fair value					
Debt securities	5,827	-	5,827	-	5,827
Investments in unlisted managed investment schemes	12,659	-	12,659	-	12,659
Total financial assets measured at fair value	**18,486**	**-**	**18,486**	**-**	**18,486**
Financial assets not measured at fair value					
Debt securities	837	-	837	-	837
Total financial assets not measured at fair value	**837**	**-**	**837**	**-**	**837**

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.

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)

There have been no significant transfers between Level 1 and Level 2 during the 2018 and 2017 financial years.

Section 3: Capital structure and financial risk management

- 3.1 Contributed equity
- 3.2 Financial risk management
- 3.3 Capital management

3.1 Contributed equity

	2018 $'000	2017 $'000
Issued capital		
253,811,616 (2017: 253,811,616) ordinary shares fully paid[1]	106,447	106,447
Total contributed equity at the end of the year	**106,447**	**106,447**
Issued capital		
Balance at the beginning of the year	106,447	1,058,584
Return of ordinary share capital	-	(18,000)
Transferred to AMP Life	-	(934,137)
Balance at the end of the year	**106,447**	**106,447**
Total contributed equity at the end of the year	**106,447**	**106,447**

1. Ordinary shares have the right to receive dividends as declared and, in the event of the w inding 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.

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 Financial risk management

The AMP Limited Board has overall responsibility for the risk management framework including the approval of AMP group'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 enterprise risk management framework.

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

- Market risk
- Liquidity 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
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.	Interest bearing investment assets of the shareholder and statutory funds.	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 does not hedge the capital invested in overseas operations of group companies.

Section 3: Capital structure and financial risk management

3.2 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.

		2018		2017	
		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		**$'000**	**$'000**	**$'000**	**$'000**
Interest rate risk					
Impact of a 100 basis points(bp)	+ 100 bp	695	695	784	784
change in Australian and international interest rates.	- 100 bp	(885)	(885)	(958)	(958)
Currency risk					
Impact of a 10% movement of	10% depreciation of AUD	-	80	-	105
exchange rate against the Australian dollar on currency sensitive monetary assets and liabilities.	10% appreciation of AUD	-	(65)	-	(86)

Section 3: Capital structure and financial risk management

3.2 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.

2018	Up to 1 year or no term $'000	1 to 5 years $'000	Over 5 years $'000	Other $'000	Total $'000
Non-derivative financial liabilities					
Payables	56,846	-	-	-	56,846
Total undiscounted financial liabilities	**56,846**	**-**	**-**	**-**	**56,846**

2017	Up to 1 year or no term $'000	1 to 5 years $'000	Over 5 years $'000	Other $'000	Total $'000
Non-derivative financial liabilities					
Payables	49,551	-	-	-	49,551
Total undiscounted financial liabilities	**49,551**	**-**	**-**	**-**	**49,551**

Section 3: Capital structure and financial risk management

3.2 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
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 the NMLA statutory fund.	Concentration & Credit Default Risk are managed to compile with APRA requirements as well as broader AMP group policies.

The AMP Concentration & Credit Default Risk Policy sets out the assessment and determination of what constitutes credit concentration risk at AMP group. 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.

Section 3: Capital structure and financial risk management

3.3 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.

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 the 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.

NMLA has a Board approved minimum capital target above APRA requirements.

At all times during the current and prior financial year, NMLA and its regulated subsidiaries complied with the applicable externally imposed capital requirements.

Section 4: Life insurance contracts

4.1 Accounting for life insurance contracts

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

NMLA issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or critical illness of the insured. 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 as of valuation date.

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.

Section 4: Life insurance contracts

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

	2018 $'000	2017 $'000
(a) Analysis of life insurance contract premium revenue		
Life insurance contract premium revenue	228	238
Life insurance contract premium revenue	**228**	**238**
(b) Analysis of life insurance contract claims expenses		
Life insurance contract claims expenses	(368)	(469)
Life insurance contract claims expenses	**(368)**	**(469)**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract maintenance expenses		
- Other	(696)	(832)

Section 4: Life insurance contracts

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

	2018 $'000	2017 $'000
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- value of future life insurance contract benefits	5,225	5,176
- value of future expenses	6,603	6,941
- value of future premiums	(1,166)	(1,374)
Total life insurance contract liabilities determined using the projection method	**10,662**	**10,743**

	2018 $'000	2017 $'000
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	10,743	6,093,979
Change in life insurance contract liabilities recognised in the Income statement	(859)	2,620
Foreign exchange adjustment	778	25
Transferred to AMP Life	-	(6,085,881)
Total life insurance contract liabilities at the end of the year	**10,662**	**10,743**

Section 4: Life insurance 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. NMLA calculates life insurance contract liabilities using projection method for retail risk and conventional business, with expected benefit/claims payments as the profit carriers.

(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 2018 %	31 December 2017 %
Retail risk and conventional [1]	Zero coupon government bond yield curve	0.5 - 4.2	0.4 - 4.2

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

(b) Future maintenance expenses
Maintenance expense assumptions 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.

(c) Expense inflation
The assumed CPI rate is the average of the past 10 year's actual annual change of Consumer Price Indices declared from the National Statistics of the Directorate-General of Budget, Accounting and Statistics (DGBAS) of the Executive Yuan in Taiwan. The expense inflation assumptions have been set based on the inflation rates and recent expense performance.

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

	%	
	CPI	Expense Inflation
31 December 2018	1.1	1.1
31 December 2017	1.1	1.1

(d) Voluntary discontinuance
Assumptions for the incidence of withdrawals, paid ups and premium dormancy are primarily based on investigations of NMLA's own historical experience. Since the majority of NMLA's business is term life, the experience study was performed for term life, and it is assumed that other products share the same experience.

The assumptions for future rates of discontinuance for the major classes of life insurance contracts are shown in the following table.

Business type	31 December 2018 %	31 December 2017 %
Conventional	2.0	2.0
Retail risk (lump sum)	2.0	2.0

Section 4: Life insurance contracts

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

(e) Mortality and morbidity

Typical mortality assumptions are summarised in the following table.

	Retail risk and Conventional - % of 89TSO	
	Male	**Female**
31 December 2018	60.0	60.0
31 December 2017	60.0	60.0

Typical morbidity assumptions, in aggregate, are as follows:

Taiwan Cancer[1]	Male $	Female $
31 December 2018	92 - 181	81 - 143
31 December 2017	63 - 117	63 - 117

1 The range is the expected claims cost per coverage unit in the next 10 years. One coverage unit includes multiple benefits, for example, death benefit, initial diagnosis benefit, and other ongoing treatment and inpatient benefits.

Taiwan other Accident & Health product[1]	Male % per annum	Female % per annum
31 December 2018	0.17 - 0.32	0.13 - 0.24
31 December 2017	0.16 - 0.29	0.16 - 0.29

1 The range is the percentage of expected claim cost of the sum assured per annum in the next 10 years.

The actuarial table used was table 89TSO, which is the Taiwan standard ordinary experience mortality table published in 1989.

(f) 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 2017 to 31 December 2018 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.

	NMLA		
Assumption change	**Change in future profit margins $'000**	**Change in life insurance contract liabilities $'000**	**Change in shareholders' profit and equity $'000**
31 December 2018			
Non-market related changes to discount rates[1]	-	68	68
Mortality and morbidity	-	250	250
Maintenance expenses	-	(970)	(970)
Other assumptions	-	13	13

1 Non-market related changes to discount rates includes the impact of change in the tolerance level used in the Smith-Wilson Extrapolation model prescribed by the regulator.

Section 4: Life insurance 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 critical illness of the insured.

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.

(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 (A&H)	These policies provide guaranteed benefits, which are paid on death or ill-health(include ongoing treatment benefits, such as the inpatient cancer surgery benefit), that are fixed and not at the discretion of NMLA.	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 inflation.
Conventional compulsory dividend life insurance contracts with fixed and guaranteed terms (term life, whole life and endowment)	These policies provide guaranteed benefits, which are paid on death, that are fixed and not at the discretion of NMLA. In addition, these policies provide compulsory mortality dividend and investment dividend, which effectively shares mortality and investment experience with policyholders, where the actual industry experience is defined by Taiwan regulator in each year.	Benefits are defined by the insurance contract and are not directly affected by the investment performance of any underlying assets.	Mortality, lapses, expenses and inflation.

Section 4: Life insurance 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 and equity, to a number of possible changes in assumptions relating to insurance risk.

Variable	Change in variable	Change in life insurance contract liabilities $'000	Change in the shareholder profit and equity $'000
Mortality	10% increase in mortality rates	252	(252)
Morbidity - accident and health	10% increase in incidence rates	79	(79)
Discontinuance rates	10% increase in discontinuance rates	(105)	105
Maintenance expenses	10% increase in maintenance expenses	587	(587)

(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 $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2018	823	3,262	9,111	13,196
2017	838	3,500	8,723	13,061

Section 4: Life insurance contracts

4.5 Other disclosure - life insurance contracts

	2018 $'000	2017 $'000
(a) Analysis of life insurance profit		
Components of profit related to life insurance contract liabilities:		
- Planned margins of revenues over expenses released	-	-
- Losses arising from difference between actual and assumed experience	(60)	-
- Losses arising from change in assumptions	(146)	-
- Capitalised losses	26	(3,491)
Losses related to life insurance contract liabilities	**(180)**	**(3,491)**
Investment earnings (losses) on assets in excess of life insurance contract liabilities	**41**	**(168)**

(b) Restrictions on assets in the statutory fund

NMLA conducts only non-investment linked business. NMLA has one statutory fund, which has all business in Taiwan including individual whole life, term life, endowment, accident and health.

Investments held in the statutory fund 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 the life statutory fund 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 (c).

(c) 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 holds 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 2018 was $12,841k (2017: $13,266k).

The Appointed Actuary of NMLA has confirmed that the capital base of each life statutory fund and shareholders’ fund have exceeded PCA at all times during 2018 and 2017.

Section 4: Life insurance contracts

4.5 Other disclosure - life insurance contracts (continued)

(c) Capital requirements (continued)

2018		No 3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Capital Base				
Net assets as per Life Insurance Act	A	13,560	9,141	22,701
- Common equity Tier 1 Capital		13,560	9,141	22,701
- Additional Tier 1 Capital		n/a	-	-
Total regulatory adjustments to net assets	B	-	140	140
- Total regulatory adjustments to Common equity Tier 1 Capital		-	140	140
- Total regulatory adjustments to Additional Tier 1 Capital		n/a	-	-
Total capital base	C(A+B)	13,560	9,281	22,841
Prescribed capital				
Insurance risk charge		-	-	-
Asset risk charge		4	309	313
Asset concentration risk charge		-	-	-
Operational risk charge		-	-	-
Less aggregation benefit		-	-	-
Combined stress scenario adjustment		2	131	133
Adjustment for minimum $10m PCA		8,494	1,060	9,554
Total Prescribed capital Amount (PCA)	D	8,500	1,500	10,000
Capital adequacy multiple	C/D	160%	619%	228%

2017		No 3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Capital Base				
Net assets as per Life Insurance Act	A	13,635	9,946	23,581
- Common equity Tier 1 Capital		13,635	9,946	23,581
- Additional Tier 1 Capital		n/a	-	-
Total regulatory adjustments to net assets	B	-	(315)	(315)
- Total regulatory adjustments to Common equity Tier 1 Capital		-	(315)	(315)
- Total regulatory adjustments to Additional Tier 1 Capital		n/a	-	-
Total capital base	C(A+B)	13,635	9,631	23,266
Prescribed capital				
Insurance risk charge		-	-	-
Asset risk charge		-	289	289
Asset concentration risk charge		-	-	-
Operational risk charge		-	-	-
Less aggregation benefit		-	-	-
Combined stress scenario adjustment		1	122	123
Adjustment for minimum $10m PCA		8,500	1,088	9,588
Total Prescribed capital Amount (PCA)	D	8,501	1,499	10,000
Capital adequacy multiple	C/D	160%	642%	233%

(d) Actuarial information

Mr Greg Bird, the Appointed Actuary, is satisfied as to the accuracy of the data used in the valuations in the financial report and in the tables in notes 4.2 to 4.5.

The liabilities to policyholders, capital base and prescribed capital amounts have been determined at the reporting date in accordance with the Life Act.

Section 4: Life insurance contracts

4.5 Other disclosure - life insurance contracts (continued)

(e) Disaggregated information

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

2018	No.3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Income and expenses of policyholders and the shareholder			
Life insurance contract premium revenue	228	-	228
Fee revenue	-	-	-
Foreign currency gains on disposal of foreign operations	-	-	-
Investment gains / (losses)	239	866	1,105
Life insurance contract related expenses	(368)	-	(368)
Operating expenses	(1,079)	(96)	(1,175)
Change in policyholder liabilities			
- life insurance contracts	859	-	859
Income tax expense	(18)	(114)	(132)
Net profit for the year	**(139)**	**656**	**517**

2017	No.3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Income and expenses of policyholders and the shareholder			
Life insurance contract premium revenue	238	-	238
Fee revenue	-	10,787	10,787
Foreign currency gains on disposal of foreign operations	-	39,145	39,145
Investment gains / (losses)	(47)	758	711
Life insurance contract related expenses	(469)	-	(469)
Operating expenses	(833)	(10,816)	(11,649)
Change in policyholder liabilities			
- life insurance contracts	(2,620)	-	(2,620)
Income tax expense	72	(80)	(8)
Net profit for the year	**(3,659)**	**39,794**	**36,135**

Section 4: Life insurance contracts

4.5 Other disclosure - life insurance contracts (continued)

(e) Disaggregated information (continued)

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

2018	No.3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Assets			
Investments in financial assets	23,685	1,567	**25,252**
Other assets	1,641	72,305	**73,946**
Total assets of policyholders and the shareholder	25,326	73,872	**99,198**
Liabilities			
Life insurance contract liabilities[1]	10,662	-	**10,662**
Other liabilities	1,104	64,731	**65,835**
Total liabilities of policyholders and the shareholder	11,766	64,731	**76,497**
Net assets	13,560	9,141	**22,701**
Equity			
Contributed equity	16,475	89,972	106,447
Reserves	(98)	-	(98)
Retained earnings	(2,817)	(80,831)	(83,648)
Total equity	**13,560**	**9,141**	**22,701**

2017	No.3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Assets			
Investments in financial assets	18,457	866	**19,323**
Other assets	6,543	67,974	**74,517**
Total assets of policyholders and the shareholder	25,000	68,840	**93,840**
Liabilities			
Life insurance contract liabilities[1]	10,743	-	**10,743**
Other liabilities	622	60,355	**60,977**
Total liabilities of policyholders and the shareholder	11,365	60,355	**71,720**
Net assets	13,635	8,485	**22,120**
Equity			
Contributed equity	16,475	89,972	106,447
Reserves	(162)	-	(162)
Retained earnings	(2,678)	(81,487)	(84,165)
Total equity	**13,635**	**8,485**	**22,120**

1 Based on assumptions as to likely withdrawal patterns of the various product group, it is estimated that approximately $418k (2017: $433k) of policy liabilities may be settled within 12 months of the reporting date.

Section 4: Life insurance contracts

4.5 Other disclosure - life insurance contracts (continued)

(e) Disaggregated information (continued)

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

2018	No.3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Opening retained earnings	(2,678)	(81,487)	(84,165)
Net profit / (loss) for the year	(139)	656	517
Closing retained earnings	**(2,817)**	**(80,831)**	**(83,648)**

2017	No.1 Statutory Fund $'000	No.2 Statutory Fund $'000	No.3 Statutory Fund $'000	No.4 Statutory Fund $'000	No.5 Statutory Fund $'000	No.6 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Opening retained earnings	167,059	16,500	981	147,634	192	1,788	15,788	349,942
Net profit / (loss) for the year	-	-	(3,659)	-	-	-	39,794	36,135
Transfer to AMP Life	(167,059)	(16,500)	-	(147,634)	(192)	(1,788)	(137,069)	(470,242)
Closing retained earnings	**-**	**-**	**(2,678)**	**-**	**-**	**-**	**(81,487)**	**(84,165)**

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

2018	No.3 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Opening contributed equity	16,475	89,972	106,447
Return of ordinary share capital	-	-	-
Transfer to AMP Life	-	-	-
Closing contributed equity	**16,475**	**89,972**	**106,447**

2017	No.1 Statutory Fund $'000	No.2 Statutory Fund $'000	No.3 Statutory Fund $'000	No.4 Statutory Fund $'000	No.5 Statutory Fund $'000	No.6 Statutory Fund $'000	Share-holder's Fund $'000	Total $'000
Opening contributed equity	704,073	-	16,475	228,010	6,800	2,900	200,326	1,158,584
Return of ordinary share capital	-	-	-	-	-	-	(18,000)	(18,000)
Transfer to AMP Life	(704,073)	-	-	(228,010)	(6,800)	(2,900)	(92,354)	(1,034,137)
Closing contributed equity	**-**	**-**	**16,475**	**-**	**-**	**-**	**89,972**	**106,447**

Section 5: Related party disclosures

- 5.1 Controlled entities
- 5.2 Key management personnel
- 5.3 Transactions with related parties

5.1 Controlled entities

Significant investments in controlled operating entities are as follows:

Details of investments of the controlled entity in Shareholder's fund are as follows:

Name of entity	Country of incorporation	Share type	Ownership interest 2018 (%)	Ownership interest 2017 (%)
National Mutual Life Nominees Limited	Australia	Ord	100	100

5.2 Key management personnel

(a) Compensation of key management personnel[1]

	2018 $	2017 $
Short term benefits	3,854,087	5,749,714
Post-employment benefits	134,045	119,063
Share based payments[2]	(1,799,571)	2,331,262
Other long-term benefits[3]	(116,226)	53,488
Termination Benefits	1,882,252	-
Total	**3,954,587**	**8,253,527**

1. For key management personnel of the company who are also key management personnel of AMP Limited, the amounts include compensation from AMP Limited.
2. The negative balance represents share based payments expense, offset by reversals during the year where awards were forfeited or where the performance conditions were not met.
3. Other long-term benefits includes reversals of long-service-leave provisions where individuals are no longer employees of AMP and their respective length of service requirements have not been met.

(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

5.3 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		Amounts owed by related parties $'000	Amounts owed to related parties $'000
AMP Limited	2018	-	2,682
	2017	-	-
AMP Life Limited	2018	-	51,202
	2017	-	44,587
AMP Services Limited	2018	-	15
	2017	238	-
NM Life Nominees Limited	2018	-	2,344
	2017	-	2,491

Section 6: Other disclosures

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

6.1 Notes to Statement of cash flows

Reconciliation of cash flow from operation activities

	2018 $'000	2017 $'000
Reconciliation of the net profit after income tax to cash flows from operating activities		
Net profit for the year	517	36,135
Foreign currency gains on disposal of foreign operations	-	(39,145)
Investment gains and losses	161	508
Dividend and distribution income reinvested	(220)	(19)
Decrease in receivables and other assets	7,946	21,458
(Decrease) / increase in net policy liabilities	(81)	2,645
(Decrease) / increase in income tax balances	(2,520)	61,268
Decrease in other payables and provisions	(145)	(35,498)
Cash flows from operating activities	**5,658**	**47,352**

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, net of outstanding bank overdrafts.

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 the controlled entity 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 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 material contingent liabilities.

6.3 Auditors' remuneration

	2018 $'000	2017 $'000
Audit services for NMLA		
Audit of subsidiary financial statements	40	54
Other audit services	20	15
Total audit service fees	60	69

Section 6: Other disclosures

6.4 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 2018. These have not had a material effect on the financial position or performance of NMLA.

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 and introduces new disclosures requirements. Under AASB 15, revenue will be recognised at an amount that reflects the consideration which an entity expects to be entitled to in exchange for transferring goods and services to a customer.

From a NMLA perspective, AASB 15 will primarily apply to fee revenue as life insurance contract related revenue will continue to fall outside the scope of AASB 15 and will be accounted for under other applicable standards. Based on the impact assessment undertaken, there is no material impact to NMLA upon adoption of AASB 15.

AASB 9 *Financial Instruments*
AASB 9 Financial Instruments (AASB 9) is effective for periods beginning on 1 January 2019. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected loss mode when recognising expected credit losses (ECL) on financial assets, and also introduces new general hedge accounting requirements.

NMLA has applied AASB 9 retrospectively without restating the comparative information for 2017 as permitted by the transitional provisions of the standard. The difference between the previous carrying amount of financial instruments and the carrying amount of those instruments at 1 January 2018 measured in accordance with AASB 9 has been recorded as an adjustment to retained earnings at 1 January 2018 as permitted by AASB 9. The adjustment is less than $1,000.

From a classification perspective, the impact to NMLA was immaterial as NMLA's financial instruments continue to be classified as measure at fair value through profit or loss.

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 17 *Insurance Contracts*
AASB 17 *Insurance Contracts* (AASB 17) is effective for periods beginning on 1 January 2021. The new standard will introduce significant change to the accounting for life insurance contracts and the reporting and disclosures in relation to those contracts.

The new standard, of itself, does not change the underlying economics or cash flows of the life insurance business. However, it is anticipated that there will be an impact on profit emergence profiles from life insurance contracts. Subject to any changes to regulation or legislation which may be made in response to the new standard, there may also be an impact on the determination of capital requirements and income tax.

The detailed requirements of the standard are complex and, in some cases, the final impact of these requirements will not be determined until interpretations and regulatory responses to the new standard are developed. NMLA is continuing to develop its implementation plan for the adoption of AASB 17.

The International Accounting Standards Board (IASB) has voted to propose a one-year deferral of the effective date for IFRS 17 to 1 January 2022. The proposed deferred is subject to public consultation, which is expected in 2019.

6.5 Events occurring after reporting date

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 2018

In accordance with a resolution of the directors of The National Mutual Life Association of Australasia Limited, 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 2018 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 2018 include an explicit and unreserved statement of compliance with the International Financial Reporting Standards.

Trevor Matthews	Megan Beer
Chairman	Managing director

Sydney, 22 March 2019

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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 Limited (the Company), which comprises the statement of financial position as at 31 December 2018, 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 Company 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 2018 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
22 March 2019