

# **PremiumChoice Retirement Service**

ABN 70 479 285 132

## **Financial Report**

**For the year ended 30 June 2012**



# PremiumChoice Retirement Service

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**PremiumChoice Retirement Service**  
**Statement of Financial Position – As at 30 June 2012**

	Notes	2012 \$'000	2011 \$'000
<b>Assets</b>			
<b>Cash and cash equivalents</b>	10(a)	3,635	10,214
<b>Receivables</b>			
Outstanding settlements		1,267	5,153
Investment revenue receivable		3,880	7,499
Other receivables		38	64
<b>Investments</b>			
Professional Funds Account		24,765	-
Cash Management Account		-	23,371
Listed shares		21,240	14,125
Separately Managed Accounts		3,454	1,942
Cash Account Income Fund		9,318	9,353
Unlisted unit trusts		201,057	237,357
Term deposits		26,356	16,444
<b>Other</b>			
Income tax receivable		-	264
Deferred tax asset	9	6,007	4,798
<b>Total assets</b>		301,017	330,584
<b>Liabilities</b>			
Payable - Navigator Australia Limited		399	470
Payable - MLC Limited		82	78
Outstanding settlements		335	910
Outstanding settlements – Pension & Lump sum tax payable		8	8
Other payables		-	45
Income tax payable	9	127	-
<b>Total liabilities (excluding net assets available to pay benefits)</b>		951	1,511
<b>Net assets available to pay benefits</b>		300,066	329,073
Represented by:			
<b>Total Liability for Accrued Benefits</b>	4,5,6	300,066	329,073

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements on pages 4-23

**PremiumChoice Retirement Service**  
**Operating Statement for the year ended 30 June 2012**

	Notes	2012 \$'000	2011 \$'000
<b>Investment income</b>			
Rebates		123	85
Dividends		846	613
Interest		1,206	1,186
Distributions		10,549	15,178
Changes in net market values	3	(19,123)	4,888
<b>Net investment revenue</b>		(6,399)	21,950
<b>Contributions revenue</b>			
Employers' contributions		9,873	12,308
Members' contributions		9,663	8,844
Transfers from other funds		8,746	14,445
Other		5	2
<b>Total contributions revenue</b>		28,287	35,599
<b>Total revenue</b>		21,888	57,549
<b>Expenses</b>			
Adviser review fees		562	402
Deferred entry fees		220	365
Entry fees		205	250
Insurance premiums		952	756
Management fees		4,381	4,874
Other		160	114
<b>Total expenses</b>		6,480	6,761
<b>Benefits accrued as a result of operation before income tax</b>		15,408	50,788
<b>Income tax (expense)/benefit attributed to benefits accrued as a result of operations</b>	9	276	(1,355)
<b>Benefits accrued as a result of operations</b>		15,684	49,433

The Operating Statement is to be read in conjunction with the notes to the financial statements on pages 4-23

**PremiumChoice Retirement Service**  
**Statement of Cash Flows for the year ended 30 June 2012**

	Notes	2012 \$'000	2011 \$'000
<b>Cash flows provided by operating activities</b>			
Employers' contributions received		9,873	12,308
Members' contributions received		9,663	8,844
Interest received		1,221	1,172
Distributions received		14,153	12,482
Dividends received		846	613
Rebates received		123	85
Transfers in received		7,392	12,939
Compensation received		5	2
Management fees paid		(4,412)	(4,898)
Entry fees paid		(201)	(262)
Deferred entry fees paid		(237)	(430)
Insurance premiums paid		(948)	(736)
Adviser review fees paid		(560)	(402)
Other		(203)	(69)
Redemptions paid		(37,694)	(38,121)
Pensions paid		(7,001)	(6,761)
Tax received from the ATO		(542)	(845)
Superannuation contributions surcharge paid		-	(4)
<b>Net cash flows used in operating activities</b>	10(b)	(8,522)	(4,083)
<b>Cash flows from investing activities</b>			
Purchase of investments		(126,336)	(106,154)
Proceeds on sale of investments		128,279	113,569
<b>Net cash flows from investing activities</b>		1,943	7,415
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		(6,579)	3,332
Cash and cash equivalents at beginning of the financial year		10,214	6,882
<b>Cash and cash equivalents at end of financial year</b>	10(a)	3,635	10,214

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements on pages 4-23

# **PremiumChoice Retirement Service**

## **Notes to the Financial Statements**

### **1. Summary of significant accounting policies**

The principal accounting policies that have been adopted in the preparation of the financial statements are as follows:

#### **(a) Basis of preparation**

The financial statements of the PremiumChoice Retirement Service ("the Service") are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards including AAS 25 "Financial Reporting by Superannuation Plans" ("AAS 25") as amended by AASB 2005-13 "Amendments to Australian Accounting Standards (AAS25)", other accounting policies to the extent applicable, the Superannuation Industry (Supervision) Act 1993, and Regulations and the provisions of the Trust Deed.

The financial statements have been prepared in accordance with the historical cost convention, except for the valuation of investments which are measured at net market value. Changes in the net market value of investments are recognised in the Operating Statement in the periods in which they occur. The financial statements are presented in Australian Dollars, which is the functional currency of the Service. Amounts are shown rounded to the nearest thousand (\$'000) under the option available under ASIC Class Order 98/100 or under AASB101 Presentation of Financial Statements.

The financial statements were approved by the board of the Trustee on 18 October 2012.

#### **(b) Statement of compliance**

These financial statements comply with Australian Accounting Standards. Since AAS 25 is the principal standard that applies to the financial statements, other standards are applied to the extent that AAS 25 is silent. International Financial Reporting Standards ("IFRS") form the basis of the Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB").

#### **Application of Accounting Standards**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. These new standards are not expected to have significant effect on the financial statements of the Service, except for AASB 9 Financial Instruments, which becomes mandatory for the Service's financial statements for the year ending 30 June 2014. The Service does not plan to adopt this standard early.

#### **(c) Significant accounting judgements, estimates and assumptions**

The preparation of the financial report requires the making of accounting judgements, estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable in the circumstances. Actual result may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

# PremiumChoice Retirement Service

## Notes to the Financial Statements

### 1. Summary of significant accounting policies (continued)

#### (d) Investments

Investments and derivatives of the Service are initially recognised at cost, being the fair value of the consideration given excluding transaction costs.

After initial recognition, the investments and derivatives of the Service are included in the Statement of Financial Position at net market value as at reporting date and movements in the net market value of investments and derivatives are recognised in the Operating Statement in the financial year in which they occur.

Investments are maintained for the long-term purpose of providing benefits to members on their retirement, reaching a specified age, death or termination of employment.

Net market values of investments and derivatives have been determined as follows:

- i) Listed securities and listed unit trusts quoted on a recognised stock exchange are stated at the last sale price as at the close of business on reporting date.
- ii) Investments in Separately Managed Accounts are equity securities which are stated at the last sale price at the close of business on reporting date.
- iii) Net market value of units in unlisted unit trusts is valued at the ex-distribution redemption price, quoted by the investment manager, on the reporting date.
- iv) Net market value of investments in frozen managed funds has been valued at the ex-distribution redemption price, quoted by the investment managers, on the balance date. Impairment analyses were conducted on frozen funds in addition to those conducted across all investments in order to determine the validity of the ex-distribution redemptions prices as at the balance date.
- v) Term deposits are carried at cost, which approximates net fair value because of their short term to maturity.

Purchases and sales of investments and derivatives that require delivery of assets within the timeframe generally established by regulation and/or convention in the market place are recognised on the trade date i.e. the date that the Service commits to purchase the asset.

#### (e) Derivatives

Some of the Service's underlying investments are invested in externally managed funds which may invest in derivative financial instruments to hedge or partially hedge specific exposures or to create synthetic exposures.

#### (f) Revenue and expense recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Service and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Changes in net market values*

Changes in net market value of investments are recognised as income and are determined as the difference between the net market value at balance date or consideration received (if sold during the year) and the net market value as at prior year end or cost (if the investment was acquired during the year).

# PremiumChoice Retirement Service

## Notes to the Financial Statements

### 1. Summary of significant accounting policies (continued)

#### (f) Revenue and expense recognition (continued)

##### *Contributions and transfers*

Contributions and transfers in are recognised when control of the asset has been attained and are recorded gross of any tax, in the period to which they relate.

##### *Interest*

Interest income on cash at bank is recognised as interest accrues using the effective interest method.

##### *Distributions and dividends*

Distribution and dividend income is recognised when the right to receive payment is established. Term deposit income, included under Distributions, is recognised on receipt at maturity.

##### *Rebates*

Rebate income is recognised on receipt.

#### (g) Income tax

The Service complies with the conditions of the Superannuation Industry (Supervision) Act 1993 and is entitled to concessional tax treatment. Income tax is payable at 15% of employer contributions and member contributions where a notice under Section 290-170 of the Income Tax Assessment Act 1997 is received. Income tax has been provided in the current year at the nominal rate of 15% as it is the expectation of the Trustee that the Service will be treated as a complying superannuation fund for the purposes of the provisions of the Income Tax Assessment Act. If the Service is subsequently deemed to be a non-complying fund for the current year, then income tax will be payable at a rate of 45% on the Service's taxable income.

Income tax on the Operating Statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent it is not probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

# **PremiumChoice Retirement Service**

## **Notes to the Financial Statements**

### **1. Summary of significant accounting policies (continued)**

#### **(h) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO") as a Reduced Input Tax Credit ("RITC"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of any GST recoverable from or payable to the ATO is included as a receivable or payable in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing activities, which are recoverable from, or payable to the taxation authority are classified as operating cash flows.

#### **(i) Cash and cash equivalents**

Cash and cash equivalents include deposits held at call with a bank. These investments are readily convertible to cash on hand at the manager's option and are used for the day to day management of the Service's cash requirements. For the purpose of the Statement of Cash Flows, cash is cash at bank.

#### **(j) Benefits payable**

Benefits payable are valued at net market value, which comprise the entitlements of members' who notify the Fund of their intention to exit prior to the year-end but had not been paid at that time. Benefits payable are generally settled within 30 days.

#### **(k) Accrued benefits**

For defined benefit members, the amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions.

For defined contribution members, the liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries.

#### **(l) Superannuation contributions surcharge**

The Superannuation Laws Amendment (Abolition of Surcharge) Act 2005 abolishes both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

Superannuation contribution surcharge is levied on surchargeable contributions for a relevant year on the basis of the individual member's adjusted taxable income for that year. The liability for the Superannuation Contribution Surcharge is recognised when the assessment is received and agreed, as the Trustee considers this is when it can be reliably measured.

# PremiumChoice Retirement Service

## Notes to the Financial Statements

### 1. Summary of significant accounting policies (continued)

#### (l) Superannuation contributions surcharge (continued)

The superannuation surcharge liability recognised by the Service has been charged to the relevant members' accounts as an expense.

#### (m) Excess contribution tax

The Australian Taxation Office may issue release authorities to members of the Fund relating to the relevant member's excess contributions tax that is payable in respect of the member's concessional and/or non-concessional contributions for a particular year.

The liability for the excess contribution tax will be recognised when the relevant release authorities are received from the members, as the Trustee considers this is when it can be reliably measured.

The excess contributions tax liability recognised by the Fund will then be charged to the relevant member's accounts as an expense.

#### (l) No-TFN Contributions Tax

Where a member does not provide their tax file number, the Service may be required to pay no-TFN contributions tax at a rate of 31.5%, which is in addition to the concessional tax rate of 15%, which applies to the Service's taxable income.

The no-TFN contributions tax liability recognised by the Service will be charged to the relevant members' accounts. Where a tax offset is obtained by the Service in relation to the members' no-TFN contributions tax, the tax offset will be included in the relevant members' accounts.

#### (o) Comparative figures

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

### 2. Operation of the Service

The PremiumChoice Retirement Service is a defined contribution fund constituted by the Trust Deed dated 19 February 2002, (as amended). The Trustee at reporting date is NULIS Nominees (Australia) Limited ("NULIS") ABN 80 008 515 633. The Service is domiciled in Australia. The address of the registered office is 105-153 Miller Street, North Sydney. The Service is operated for the purpose of assisting members to invest and manage their superannuation and retirement benefits.

Administration of the Service is conducted by Navigator Australia Limited ABN 45 006 302 987, a related party of the Trustee.

In accordance with amendments to the Superannuation Industry (Supervision) Act 1993 the Service was registered with the Australian Prudential Regulation Authority on 1 March 2006 (registration no. R1004090).

The Service may terminate upon the occurrence of certain events as provided in the Trust Deed.

**PremiumChoice Retirement Service  
Notes to the Financial Statements**

**3. Changes in net market value of investments**

	<b>2012 \$'000</b>	<b>2011 \$'000</b>
<b>Investments held at reporting date:</b>		
Unlisted unit trusts	(12,410)	3,145
Investment in Separately Managed Accounts	(129)	125
Listed shares	(766)	148
<b>Investments realised during the financial year:</b>		
Unlisted Unit trusts	(5,669)	1,405
Investment in Separately Managed Accounts	(51)	5
Listed shares	(98)	60
<b>Total changes in net market value of investments</b>	<b>(19,123)</b>	<b>4,888</b>

**4. Liability for accrued benefits**

The liability for accrued benefits is the Service's present obligation to pay benefits to members and beneficiaries arising from their investing in the Service up to reporting date. It is measured as the difference between the carrying amounts of total assets and liabilities as at reporting date. Benefits in respect of members who ceased with the Service prior to reporting date and whose benefits were unpaid as at 30 June 2012 are included in the liability for accrued benefits amount

	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Liability for accrued benefits at beginning of the year	329,073	324,511
Add: Benefits accrued as a result of operations	15,684	49,433
Less: Members' redemptions	(37,687)	(38,110)
Less: Pension payments	(7,004)	(6,761)
<b>Liability for accrued benefits at the end of the financial year</b>	<b>300,066</b>	<b>329,073</b>

**Funding arrangements**

Members investing in the Service must meet the eligibility requirements under the superannuation law. Given eligibility, investments in the Service can be in the form of lump sum contributions, regular contributions, spouse contributions and/or contributions rolled over from other superannuation or rollover funds. Allocated pension account contributions are restricted to members who have an Eligible Termination Payment (ETP) or by transferring eligible amounts from their complying superannuation fund.

# PremiumChoice Retirement Service

## Notes to the Financial Statements

### 5. Vested benefits

Vested benefits are benefits that are not conditional upon continued membership of the Service (or any factor other than resignation from the Service) and include benefits which members were entitled to receive had they terminated their Service membership as at the end of the year.

Whilst deferred tax assets are included in vested benefits collectively, individual members exiting may not receive their portion of their benefit relating to deferred tax assets. In the event of a winding up of the Service, members collectively would only receive benefits associated with the deferred tax assets to the extent that they could be used by the Service.

	<b>2012</b> <b>\$'000</b>	<b>2011</b> <b>\$'000</b>
Vested benefits as at the end of the financial year	300,066	329,073

### 6. Guaranteed benefits

No guarantees have been made in respect of any part of the liability for accrued benefits.

### 7. Risk management

#### (a) Risks and mitigations

The Service's principal financial instruments consist of units in unlisted unit trusts, investments in Separately Managed Accounts ("SMA"), units in the Cash Account Income Fund ("CAIF"), listed shares, cash, short term deposits and the Professional Funds Account ("PFA"). The main purpose of these instruments is to generate a return on investment for the benefit of the Service's members.

The Service also has various other financial instruments such as receivables and payables which arise directly from its operations and are current in nature.

The Service's activities expose it to a variety of financial risks: credit risk, market risk (including price risk, foreign exchange risk and interest rate risk), and liquidity risk. However, the Service itself is not directly exposed to significant financial risk since all investment activities, other than those involving cash, are undertaken in accordance with the members' instructions and are limited to approved investments included in the Investment Allocation Authority.

The Service's overall risk management program therefore focuses on diversification and members' risk appetites. The Trustee has determined upper limits on investment options in some investment strategies. Risk management is performed internally and is regularly reported on by the Investment Products Governance Committee ("IPGC"). The IPGC is a sub-committee which is delegated with certain Trustee responsibilities. These responsibilities extend to approving, removing and monitoring investments offered in the Service, on a regular basis through the provision of investment analysis and reporting carried out by ThreeSixty Research.

## **PremiumChoice Retirement Service Notes to the Financial Statements**

### **7. Risk management (continued)**

#### **(a) Risks and mitigations (continued)**

The Trustee seeks information from the Trustee and/or manager of each proposed collective investment and may also seek independent advice from other qualified persons prior to determining its suitability as an investment for the Service. The information acquired is used to determine the nature and extent of any risks and the expected returns that are associated with each investment. This includes receipt of a formal Risk Management Statement from each investment manager as required by the Australian Prudential Regulation Authority.

#### **(b) Credit risk**

Credit risk represents the risk that counterparties to the financial instrument will fail to discharge an obligation and cause the Service to incur a financial loss.

Excluding cash, there were no significant concentrations of credit risk to counterparties to 30 June 2012. No individual investment exceeded 8.25% (2011: 7.64%) of the total net assets attributable to members at 30 June 2012 and this investment was the holding in the Professional Funds Account (2011: the Cash Management Account). The second largest individual investment holding amounted to 5.84% of net assets attributable to members at 30 June 2012 (2011: 7.26%) and this investment was Platinum International Fund. All directly held assets exposed to credit risk are in Australian dollars.

The Service holds no collateral as security or any other credit enhancements.

All transactions by the Service in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The IPGC monitors the credit quality of investments in unit trusts and shares.

The carrying amount of financial assets best represents the maximum credit risk exposures at the balance date. Credit risk is minimised through ensuring counterparties are appropriately monitored.

## PremiumChoice Retirement Service Notes to the Financial Statements

### 7. Risk management (continued)

#### (b) Credit risk (continued)

The following table details the credit risk for the Service in relation to cash, term deposits, PFA and the CMA. The rating table excludes any rating categories applicable to the underlying assets of the unlisted unit trusts.

#### 2012

Direct Investments	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B+ \$'000	B to CCC \$'000	Total \$'000
Cash and cash equivalents	3,635	-	-	-	3,635
Term deposits	19,924	-	6,433	-	26,357
PFA	24,765	-	-	-	24,765
Total	48,324	-	6,433	-	54,757

#### 2011

Direct Investments	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B+ \$'000	B to CCC \$'000	Total \$'000
Cash and cash equivalents	10,214	-	-	-	10,214
Term deposits	8,956	-	7,488	-	16,444
CMA	23,371	-	-	-	23,371
Total	42,541	-	7,488	-	50,029

The underlying assets of the unlisted unit trusts and the CAIF which are held by the Service can have credit ratings that extend from AAA through to unrated, and any financial losses due to credit risk may be reflected in the unit prices of the unlisted unit trusts.

There are no significant financial assets that are past due or impaired.

#### (c) Market risk

Market risk represents the risk that a financial instrument's value or future cash flows of financial instruments will fluctuate as a result of changes in the market, such as interest rate changes, foreign exchange rate changes and equity prices changes. Market risk is minimised through ensuring that all investment activities are undertaken in accordance with established limits, investment strategies and members instructions.

These changes might be caused by factors specific to the individual asset or its issuer or factors affecting all assets in the market.

##### i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the foreign exchange rates. The Service is indirectly exposed to foreign exchange risk through its investments in unlisted unit trusts.

Whilst the Service invests in unlisted unit trusts that are registered in Australia, some of these trusts hold international debt and equity securities. The impact of changes to foreign exchange rates may be reflected in the unit prices of the unlisted unit trusts held by the Service.

## PremiumChoice Retirement Service Notes to the Financial Statements

### 7. Risk management (continued)

#### (c) Market risk (continued)

##### ii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Service is directly exposed to interest rate risk through its cash, term deposits and holdings in the CAIF and the Professional Funds Account. The Service is also indirectly exposed to interest rate risk through its investment in unlisted unit trusts. This indirect risk affects the price of the Service's holding in these investment options. The sensitivity to such price movements is discussed under 'Price risk'.

The Service addresses exposure to interest rate risk through its diverse investment menu. Some of the underlying unlisted unit trusts use derivative financial instruments, such as interest rate swaps to provide flexibility to manage the risks arising from changes in the interest rates.

The following table demonstrates the sensitivity of the Service's Operating Statement to a reasonably possible change in interest rates. The sensitivity of the Operating Statement is the effect of the assumed changes in the interest rates to the interest income for one year, based on the floating rate financial assets held at 30 June 2012. The table includes interest income related to direct investments in cash and cash equivalents, term deposits and the investments in the CAIF and the Professional Funds Account, but excludes any change to the interest income of the underlying assets of the unlisted unit trusts held by the Service.

#### 2012

			Effect on accrued benefits attributable to members	
Change in annual return			Sensitivity of interest income \$000	
	+	-	+	-
AUD	100 bps	-100 bps	641	(641)

#### 2011

			Effect on accrued benefits attributable to members	
Change in annual return			Sensitivity of interest income \$000	
	+	-	+	-
AUD	100 bps	-100 bps	594	(594)

##### iii) Price risk

Price risk is the risk that the fair value of the Service's holdings in listed shares, investments in Separately Managed Accounts and unlisted unit trusts decrease or increase as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Price risk exposures arise reflect members' investment portfolios.

## PremiumChoice Retirement Service Notes to the Financial Statements

### 7. Risk management (continued)

#### (d) Market risk (continued)

##### iii) Price risk

To mitigate price risk, the Trustee diversifies the investments included in the Investment Allocation Authority. The majority of the listed equity investments are publicly traded on the Australian Stock Exchange ("ASX"). The majority of unlisted unit trusts are selected and monitored taking into consideration various industry research.

The Trustee has a diversification guideline on the percentage of a member's account that can be invested in various investment categories.

The effect on the current financial year's Operating Statement and the Statement of Financial Position due to reasonably possible changes in market factors on the Service's directly held listed shares based on historical ASX All Ordinaries index data over a 5 year period, with all other variables held constant, is indicated in the table below. This table includes comparative values for 2011, calculated on the administrator's estimation of reasonably possible changes at 30 June 2011.

The table excludes any effect on the Operating Statement resulting from changes to the underlying assets of the unlisted unit trusts held by the Service.

2012				2011			
Change in listed equity price %		Effect on accrued benefits attributable to members \$'000		Change in listed equity price %		Effect on accrued benefits attributable to members \$'000	
+	-	+	-	+	-	+	-
21		5,186		21		3,374	
	-9		(2,222)		-10		(1,607)

The following table reflects the effect on the Operating Statement due to reasonably possible changes in the unit prices across the unlisted unit trusts held by the Service based on historical data over a 5 year period, with all other variables held constant. This table includes comparative values for 2011 calculated on the administrator's estimation of reasonably possible changes at 30 June 2011.

2012				2011			
Change in unlisted unit trust price %		Effect on accrued benefits attributable to members \$'000		Change in unlisted unit trust price %		Effect on accrued benefits attributable to members \$'000	
+	-	+	-	+	-	+	-
17		34,180		17		40,351	
	-12		(24,127)		-16		(37,977)

## **PremiumChoice Retirement Service Notes to the Financial Statements**

### **7. Risk management (continued)**

#### **(c) Market risk (continued)**

##### **iii) Price risk (continued)**

Direct holdings, as reflected in the Service's Statement of Financial Position, comprise unlisted unit trusts, investments in Separately Managed Accounts, units in the CAIF, listed shares, term deposits, the Professional Funds Account and cash and cash equivalents. The tables above in the price risk note cover the direct holdings in listed shares, investments in Separately Managed Accounts and unlisted unit trusts. The table in the interest rate risk note covers the direct holdings in cash and cash equivalents, term deposits and the holding in CAIF and the Professional Funds Account.

#### **(e) Liquidity risk**

Liquidity risk is the risk that the Service will not be able to meet its financial obligations as they fall due.

The Service's listed securities are considered readily realisable, as they are listed on the ASX. In addition, the underlying investments of the Service's unlisted unit trusts are significantly invested in liquid markets.

Liquidity risk is currently heightened in certain sub-categories such as mortgage funds, property funds and hedge funds.

The Service's significant financial liabilities are benefits payable to members. In relation to contractual maturity of vested superannuation benefits these would be considered on demand. On demand payments comprise of the entire vested benefit portion of the Service. Based on prior experience, the Service considers it highly unlikely that all members will seek to withdraw their benefits at the same time. The members accept the time taken to convert their assets to cash to meet their obligations when called upon. The unlisted unit trusts of the Service may suspend or impose restrictions on redemptions from time to time.

Other financial liabilities of the Service comprise payables which are current in nature.

### **8. Fair value of financial instruments**

#### **(a) Classification of Financial Instruments under the Fair Value Hierarchy**

AAS 25 requires investments to be measured using net market value. The following table shows financial instruments recorded at net market value, analysed between those whose net market value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market and those where the valuation technique involves the use of non-market observable inputs that are significant to the determination of net market value. Net market value is considered a reasonable approximation of fair value, and for the purposes of the "fair value hierarchy", estimated costs of disposal have been disregarded for Level 1 financial assets.

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the net market value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument. Disclosure of the methods and assumptions applied in determining the net market value for each class of financial assets are included in Note 1(d).

Level 1 of the hierarchy consists of the last sale price as quoted at the close of business or the reporting date of listed equity and investments held in Separately Managed Accounts.

**PremiumChoice Retirement Service  
Notes to the Financial Statements**

**8. Fair value of financial instruments (continued)**

**(a) Classification of Financial Instruments under the Fair Value Hierarchy (continued)**

Level 2 of the hierarchy consists of the fair value of units in unlisted managed investment schemes and units in the Cash Account Income Fund. Fair value is determined by reference to published bid prices at the close of business on the reporting date, being the redemption price as established by the underlying scheme's Responsible Entity.

Level 3 of the hierarchy consists of equities that are subject to long term suspension, in liquidation or in receivership and units in unlisted unit trusts which have not had a redemption withdrawal during the financial year to 30 June 2012. While these unlisted unit trusts have not had a redemption withdrawal during the financial year to 30 June 2012 they are being regularly priced and the majority of these funds have continued to make regular distributions. On this basis valuation is considered reasonable.

Financial Instruments	2012			Total
	Level 1 Valued at quoted market price	Level 2 Market observable inputs	Level 3 Non-market observable inputs	
	\$'000	\$'000	\$'000	
Listed equity securities and investments held in the SMA	24,694	-	-	24,694
Unlisted unit trusts and term deposits	-	224,560	2,853	227,413
Units in the Cash Account Income Fund	-	9,318	-	9,318
Total	24,694	233,878	2,853	261,425

Financial Instruments	2011			Total
	Level 1 Valued at quoted market price	Level 2 Market observable inputs	Level 3 Non-market observable inputs	
	\$'000	\$'000	\$'000	
Listed equity securities and investments held in the SMA	16,067	-	-	16,067
Unlisted unit trusts and term deposits	-	248,928	4,873	253,801
Units in the Cash Account Income Fund	-	9,353	-	9,353
Total	16,067	258,281	4,873	279,221

**PremiumChoice Retirement Service  
Notes to the Financial Statements**

**8. Fair value of financial instruments (continued)**

**(b) Level 3 Financial Instruments Transactions**

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

	<b>2012</b>		
	<b>Listed shares and other assets \$'000</b>	<b>Unlisted unit trusts \$'000</b>	<b>Total \$'000</b>
	Opening balance	-	4,873
Total realised/unrealised gains and losses	-	(509)	(509)
Purchases	-	-	-
Sales	-	-	-
Transfers into level 3	-	1,324	1,324
Transfers out of level 3	-	(2,835)	(2,835)
Closing balance	-	2,853	2,853

	<b>2011</b>		
	<b>Listed shares and other assets \$'000</b>	<b>Unlisted unit trusts \$'000</b>	<b>Total \$'000</b>
	Opening balance	-	7,002
Total realised/unrealised gains and losses	-	(1,480)	(1,480)
Purchases	-	-	-
Sales	-	-	-
Transfers into level 3	-	33	33
Transfers out of level 3	-	(682)	(682)
Closing balance	-	4,873	4,873

**9. Income tax**

Major components of the income tax expense for the years ended 30 June 2012 and 2011 are:

	<b>2012 \$'000</b>	<b>2011 \$'000</b>
<b>Operating Statement</b>		
<b>Current tax expenses</b>		
Current income tax charge	(749)	(635)
Adjustments in respect of current income tax of prior year	(184)	111
<b>Deferred tax expenses</b>		
Relating to origination and reversal of temporary differences	1,209	(831)
	276	(1,355)

**PremiumChoice Retirement Service  
Notes to the Financial Statements**

**9. Income tax (continued)**

Reconciliation between income tax expenses and the accounting profit before income tax

	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Benefits accrued before income tax	15,408	50,788
Prima facie tax payable @ 15%	(2,311)	(7,618)
Non taxable income	188	304
Contributions not subject to tax	2,523	3,517
Gross up of franking credits	(217)	(199)
Gross up of foreign income tax	(10)	(11)
Claim of franking credits	1,450	1,885
Claim of foreign income tax offsets	47	73
Difference between realised accounting gains/losses and taxable capital gains/losses	(873)	220
Difference between unrealised accounting gains/losses and taxable capital gains/losses	(787)	(44)
Protection cost	(2)	-
Net exempt pension income	436	230
Superannuation contributions surcharge	-	(1)
Anti-detriment payments	17	138
Over/under provision of prior year	(185)	151
<b>Income tax (charge)/benefit reported in the Operating Statement</b>	<b>276</b>	<b>(1,355)</b>
<b>Deferred income tax</b>		
Deferred tax at 30 June relates to the following:		
<b>Deferred income tax asset</b>		
Unrealised losses on investments subject to CGT	2,408	1,934
Capital losses carried forward	3,599	2,864
Gross deferred tax asset	6,007	4,798
<b>Income tax (payable)/receivable</b>		
Current Income tax (charge)	(749)	(635)
Instalments paid	622	899
<b>Gross income tax (liability)/asset</b>	<b>(127)</b>	<b>264</b>

**PremiumChoice Retirement Service  
Notes to the Financial Statements**

**10. Notes to the Statement of Cash Flows**

**(a) Reconciliation of cash and cash equivalents**

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Cash and cash equivalents	3,635	10,214

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**(b) Reconciliation of benefits accrued as a result of operations to net cash provided by operating activities:**

	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Benefits accrued from ordinary activities after income tax	15,684	49,433
Members' redemptions	(37,687)	(38,110)
Pension payments	(7,005)	(6,761)
In-species transfers	(1,353)	(1,506)
Changes in net market values of investments	19,123	(4,888)
(Increase)/decrease in investment income receivable	3,619	(2,710)
(Increase)/decrease in GST receivable	27	(19)
Increase/(decrease) in fees payable to Navigator Australia Limited	(70)	(80)
Increase/(decrease) in amounts payable to related parties	3	19
Increase/(decrease) in sundry payables	(44)	22
Increase/(decrease) in pension and lump sum tax payable	-	8
Increase/(decrease) in income tax payable/receivable	391	(322)
(Increase)/decrease in deferred tax assets	(1,209)	831
(Increase)/decrease in compensation receivable	(1)	-
<b>Net cash flows used in operating activities</b>	<b>(8,522)</b>	<b>(4,083)</b>

**(c) Non-cash financing and investment activities**

During the year there were investment in-specie transfers into the Service of \$1,353,220 (2011: \$1,505,721).

# PremiumChoice Retirement Service

## Notes to the Financial Statements

### 11. Related parties

#### Trustees

The Trustee of the Service is NULIS Nominees (Australia) Limited ABN 80 008 515 633 (RSE L0000741) which is a wholly owned subsidiary of MLC Limited ABN 90 000 000 402, whose ultimate parent entity is National Australia Bank Limited.

Costs of the Trustee are met by a related party, MLC Limited.

#### Directors

The names of the directors of the Trustee who held office at any time during or since the end of the financial year are:

	Appointed	Resigned	Independence
Richard Morath*	01/10/2009		Executive
Geoffrey Webb	01/10/2009		Non-executive
Michael Clancy	01/10/2009		Executive
Patrick Burroughs	01/10/2009	24/6/2012	Non-executive
Nicole Smith	01/10/2009		Non-executive
John Reid	01/10/2009		Executive
Michael Fitzsimons	25/08/2010		Executive
Peggy Haines	14/02/2011		Non-executive
Richard Rassi	29/5/2012		Non-executive

\* Non-executive from 30 September 2012

#### Directors' remuneration

No amounts are paid by the Service directly to the directors of the Trustee as the directors are not employed or remunerated by the Service. The directors may become members of the Service and hold investments in the Service from time to time. These transactions are made on commercial arms length terms.

#### Related party transactions

The Administrator of the Service is Navigator Australia Limited ("NAL"). In its capacity as Administrator, NAL derives management and other fees. NAL is a subsidiary of National Wealth Management Holdings Limited, whose ultimate parent entity is National Australia Bank.

The Responsible Entity of the Navigator Pre Select Funds and CAIF is NAL. NAL derives management fees in its capacity as Responsible Entity for these trusts.

There are number of investment options made available from which related parties derive fees on an arms length basis.

Antares Capital Partners Limited ("ACPL"), formerly named Aviva Investors Australia Limited ("AIAL"), provides investment management services to several Pre Select Funds and Navigator Access Funds and derives investment management fees and administration fees in respect of these services. ACPL was purchased on 01 October 2011 by MLC Wealth Management Holdings Ltd.

The Service also holds investments in various ACPL Trusts. ACPL acts as the Responsible Entity of the ACPL Trusts and receives management fees for these investment products.

## PremiumChoice Retirement Service Notes to the Financial Statements

### 11. Related parties (continued)

MLC Limited, a subsidiary of MLC Wealth Management Holdings Limited, also provides an optional wealth protection product to members of the Service.

Transactions between the related entities and the Service result from normal dealings in the ordinary course of business. All transactions are conducted on normal commercial terms and conditions.

Related entity	Nature of terms of transactions	2012 \$'000	2011 \$'000
Navigator Australia Limited	Management fees	4,381	4,874
	Entry fees	205	250
	Deferred entry fees	220	365
	Other fees relating to exit fees, adviser review fees, regular investment facility fees and share transaction fees	720	468
MLC Limited	Insurance premiums	952	756

#### ***Other***

At 30/06/2012:

- The Service owes NAL \$399,440 (2011: \$469,666) for management and other fees.
- The Service owes MLC Limited \$81,713 (2011: \$78,247) for insurance premiums.

#### ***Investing activities***

The Service has no investment in the Administrator or the Trustee. The Service may purchase and sell units in approved trusts established by the related parties or its affiliates in the ordinary course of business at market determined issue and redemption prices and may buy and sell equities in related parties at arm's length and under normal terms and conditions on the instruction of members. Details of the Service's investments in related parties are set out below:

# PremiumChoice Retirement Service

## Notes to the Financial Statements

### 11. Related parties (continued)

#### Year to June 2012

	No. of units held as at 30/06/12	Net market value of investment as at 30/06/12	Interest held in related trust as at 30/06/12	Contribution to investment income for the year	Distributions Receivable at 30/06/12	Purchases at cost during the year	Proceeds on sales during the year
		\$'000		\$'000	\$'000	\$'000	\$'000
Cash Account Income Fund	9,317,876	9,318	2.98%	461	120	-	(35)
Navigator PreSelect Funds	2,460,300	2,448	0.14%	77	26	323	(309)
Integrated Separately Managed Accounts	-	3,454	1.66%	124	-	1,991	(299)
MLC Funds	202,057	170	0.01%	6	3	80	(36)
Fairview Equity	22,285	34	0.02%	-	-	36	(11)

#### † Nine months to June 2012

	No. of units held as at 30/06/12	Net market value of investment as at 30/06/12	Interest held in related trust as at 30/06/12	Contribution to investment income for the period	Distributions Receivable at 30/06/12	Purchases at cost during the period	Proceeds on sales during the period
		\$'000		\$'000	\$'000	\$'000	\$'000
Antares Capital Partners Limited	16,523,568	17,841	1.39%	212	107	1,911	(5,330)

#### Year to June 2011

	No. of units held as at 30/06/11	Net market value of investment as at 30/06/11	Interest held in related trust as at 30/06/11	Contribution to investment income for the year	Distributions Receivable at 30/06/11	Purchases at cost during the year	Proceeds on sales during the year
		\$'000		\$'000	\$'000	\$'000	\$'000
Cash Account Income Fund	9,352,902	9,353	2.98%	971	219	-	(21,871)
Navigator PreSelect Funds	2,446,422	2,470	0.14%	213	149	510	(475)
Integrated Separately Managed Accounts	-	1,942	1.22%	(143)	-	1,639	-
MLC Funds	167,626	131	0.01%	5	4	60	(57)
Antares Lodestar	688,614	552	0.39%	7	2	476	(23)
Fairview Equity	8,446	14	0.02%	-	-	15	-

The Service held 33,100 ordinary shares in National Australia Bank Limited at reporting date worth \$779,174 and 1,280 National Income Securities Stapled Floating Rate Notes worth \$128,627. The Service also held \$8,162,698 in term deposits with the NAB as at 30 June 2012 and \$24,764,949 in a National Australia Bank Professional Funds Account.

## **PremiumChoice Retirement Service Notes to the Financial Statements**

### **12. Auditor's remuneration**

Auditor's remuneration has not been charged to the Service as this cost is borne by NAL. Since the Service itself is not responsible for these payments the amounts disclosed are not included in either expenses or liabilities in the Operating Statement or Statement of Financial Position respectively. The amount paid and payable by NAL for the financial year for both the audit of the financial statements by Ernst & Young Services Pty Ltd and for the audit of other regulatory requirements was \$23,900 (2011: \$22,900).

### **13. Commitments and Contingencies**

#### **Tax on surchargeable contributions**

The superannuation contributions surcharge is levied on surchargeable contributions received by the Fund on or after 21 August 1996 and on before 30 June 2005. The Australian Taxation Office (ATO) assesses the amount of the surcharge based upon each member's adjusted taxable income and level of surchargeable contributions and periodically sends grouped assessments to the Service.

The liability to pay the surcharge rests with the holder of the surchargeable contributions at the time the surcharge assessment is received from the ATO. Any surcharge levied against the Service is charged to the relevant members' benefits when the assessment is received and agreed.

The Service is not in a position to reliably measure the liability for the surcharge in respect of the year ended 30 June 2012 and has not made provision for it in these financial statements. Contributions surcharge is recognised as an expense of the Service in the financial year that the assessment is recognised and agreed.

### **14. Events subsequent to reporting date**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Service disclosed in the Statement of Financial Position as at 30 June 2012 or on the results and cash flows of the Service for the reporting period ended on that date.

**PremiumChoice Retirement Service  
Financial Report for the year ended 30 June 2012  
Trustee's declaration to the Members**

In the opinion of the Trustee of the PremiumChoice Retirement Service ("the Service"):

1. The accompanying financial statements of the Service are properly drawn up so as to present fairly the financial position of the Service as at 30 June 2012, the results of its operations and cash flows for the reporting period ended on that date in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and the provisions of the Trust Deed dated 19 February 2002, as amended; and
2. The Fund has been conducted in accordance with its constituent Trust Deed dated 19 February 2002, as amended, the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations, the Corporations Act 2001 and Regulations and Guidelines during the reporting period.

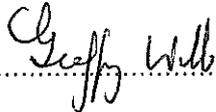
Signed in accordance with a resolution of the Board of Directors of NULIS Nominees (Australia) Limited.



.....  
Director

Date:

*18 October, 2012*



.....  
Director

Date:

*18 October, 2012*

## (A) APRA Annual Return

### Independent Auditor's report approved form for registrable superannuation entity

Independent auditor's report to the trustee of PremiumChoice Retirement Service ABN: 70 479 285 132 on APRA Annual Return forms SRF 200.0, Statement of Financial Performance, SRF 210.0 Statement of Financial Position, SRF 220.0 Exposure Concentrations and SRF 230.0 Transactions with Associated Parties.

### Trustee's Responsibility for the APRA Annual Return Forms

The superannuation entity's trustee is responsible for the preparation and lodgement of the APRA Annual Return forms and for such internal controls as the trustee determines to be necessary to enable the preparation of these forms free from material misstatement, whether due to fraud or error. The APRA Annual Return forms have been prepared for the purposes of fulfilling the trustee's reporting requirements pursuant to the *Financial Sector (Collection of Data) Act 2001* (FSCODA Reporting Standards).

### Auditor's Responsibility

My responsibility is to express an opinion on the APRA Annual Return Forms based on my audit. I have audited, pursuant to the FSCODA Reporting Standards, APRA Annual Return forms *SRF 200.0 Statement of Financial Performance*; and *SRF 210.0 Statement of Financial Position*; and other information in APRA Annual Return forms *SRF 220.0 Exposure Concentrations*; and *SRF 230.0 Transactions with Associated Parties*; (collectively known as the 'relevant forms') of PremiumChoice Retirement Service, which comprise part of the APRA Annual Return, for the year ended 30 June 2012.

I have conducted an independent audit of the relevant forms in order to express an opinion on them to the trustee of PremiumChoice Retirement Service.

I have also performed an independent audit of the financial statements of PremiumChoice Retirement Service for year ended 30 June 2012. My auditor's report on the financial statements was signed on 18 October 2012, and was not modified.

My audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the relevant forms are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the relevant forms. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the amounts and disclosures in the relevant forms, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and presentation of the amounts and disclosures in the relevant forms 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 trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the amounts and disclosures in the relevant forms.

For the purpose of ensuring that these APRA Annual Return forms are materially complete and accurate and are in accordance with the relevant prudential reporting standards, my procedures included testing that the information in the relevant forms is consistent with the financial statements for year ended 30 June 2012. In addition, and for the same purpose, in regard to other information reported in the relevant forms, I examined on a test basis, evidence supporting the amounts and other disclosures in these APRA Annual Return forms that were not directly derived from the financial statements.

These procedures have been undertaken to form an opinion whether, in all material respects:

- a) the relevant APRA Annual Return forms are prepared in all material respects in accordance with the requirements of the FSCODA Reporting Standards, so as to present a view which is consistent with my understanding of the superannuation entity's financial position as at 30 June 2012, its performance, related party dealings and exposure concentrations for the year then ended, as reflected in the superannuation entity's financial statements signed on 18 October 2012 or the accounting records of PremiumChoice Retirement Service in regards to other information that was not directly derived from the financial statements; and
- b) the trustee has complied with the reporting requirements of the FSCODA Reporting Standards pertaining to the preparation of the relevant forms specified above. My procedures did not include an audit of the amounts and other disclosures in those APRA Annual Return forms other than the relevant forms specified above.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Auditor's Opinion**

In my opinion:

- a) the relevant APRA Annual Return forms are prepared in all material respects in accordance with the requirements of the FSCODA Reporting Standards, the financial position of PremiumChoice Retirement Service as at 30 June 2012, its performance, related party dealings, and exposure concentrations for the year then ended, as reflected in the superannuation entity's financial statements signed on 18 October 2012 or accounting records with regard to other information that was not directly derived from the financial statements; and
- b) the trustee of PremiumChoice Retirement Service has complied in all material respects with the reporting requirements of the FSCODA Reporting Standards pertaining to the preparation of the relevant forms.

#### **Basis of preparation of APRA Annual Return Forms and restriction on use**

Without modifying my opinion, I draw to readers' attention that the APRA Annual Return forms have been prepared for the purpose of fulfilling the trustee's reporting responsibilities of the FSCODA Reporting Standards. As a result, they may not be suitable for another purpose.

## (B) Compliance

### Trustee's Responsibility for Compliance

- (a) The superannuation entity's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, the Reporting Standards made under s.13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA Reporting Standards), the *Corporations Act 2001* (Corporations Act) and *Corporation Regulations 2001* (Corporation Regulations).
- (b) The trustee is also responsible, under the following Conditions of the '*Schedule - additional conditions imposed under section 29EA of the Act*' of the RSE Licence issued by APRA for:
  - (i) Condition F1 - ensuring that the RSE licensee was entitled to the benefit, in respect of the due performance of its duties as RSE licensee, of an approved guarantee of at least \$5m at all times during the reporting period.

### Auditor's Responsibility

I have audited the compliance of PremiumChoice Retirement Service with the requirements set out above for the year ended 30 June 2012.

My responsibility is to express a conclusion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporation Regulations based on the audit. My audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 *Compliance Engagements*). These Standards require that I comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the trustee of PremiumChoice Retirement Service has, in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the SIS Act and SIS Regulations:

sections 19(2), 19(3), 29E(1)(c) (only in relation to the Trustee's compliance with each measure and procedure within its Risk Management Strategy), 29E(1)(e), 35A, 35C, 36, 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 117, 118, 122, 124, 125, 126K, 152, 154 and 155(2);

regulations 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

- (b) complied with the FSCODA Reporting Standards that are subject to audit (to the extent applicable); and

- (c) complied with the relevant requirements of the following provisions of the Corporations Act and Corporation Regulations (to the extent applicable):

sections 1012B, 1012F, 1012H(2), 1012I, 1013B, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9); and

regulations 7.9.110 and 7.9.32(3); and

- (d) complied with the requirement to prepare the respective forms comprising the APRA Annual Return.

for the year ended 30 June 2012.

My procedures with respect to SIS Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the SIS Regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My responsibility is also to express a conclusion on the trustee's compliance with the respective Conditions of the *'Schedule - additional conditions imposed under Section 29EA of the Act'* of the RSE Licence issued by APRA referred to under the heading Trustee's Responsibility for Compliance, above of PremiumChoice Retirement Service for the year ended 30 June 2012.

My procedures in relation to SIS Section 155(2) included assessing the trustee's controls in place to monitor compliance with Section 155(2). These procedures did not include testing the trustee's methodology used to calculate the issue or redemption price.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit conclusion.

**Auditor's Opinion**

In my opinion the Trustee of PremiumChoice Retirement Service has complied, in all material respects with:

- a) The requirements of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations specified above for the year ended 30 June 2012; and
- b) The condition contained in Condition F1 of the '*Schedule - additional conditions imposed under section 29EA of the Act*' of the RSE Licence issued by APRA, specified above.

*Luke Slater*

Luke Slater  
Partner

*Ernst & Young*

Ernst & Young  
Melbourne  
18 October 2012

## **Review of systems to manage and monitor future compliance with Risk Management Strategy and Risk Management Plan**

To the trustee of PremiumChoice Retirement Service (the RSE licensee)

### **Trustee's Responsibility for systems to manage and monitor future compliance with Risk Management Strategy and Risk Management Plan**

The trustee is responsible for the design, documentation, operation and monitoring of the Risk Management Strategy and the Risk Management Plan, including the adequacy of risk assessments contained in the strategy and plan, including the relevant internal control systems, policies and procedures, and compliance, including future compliance therewith.

### **Auditor's Responsibility**

My responsibility is to express a conclusion, based on my review, on the systems, being the relevant processes and procedures, used by NULIS Nominees (Australia) Limited to identify future risks arising from proposed future activities and to manage and monitor future (the twelve month period following the date of this review report) compliance with the Risk Management Strategy and Risk Management Plan. The contents of Risk Management Strategies and Risk Management Plans are prescribed in Sections 29H and 29P respectively of the SIS Act.

This review report was prepared for the RSE licensee in accordance with Sections 35C (5) (d) (ii) and 35C (5) (d) (iv) of the SIS Act. I disclaim any assumption of responsibility for any reliance on this review report to any person other than the trustee, or for any purpose other than that for which it was prepared.

I have conducted my review in accordance with applicable Standards on Assurance Engagements (ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information) in order to state whether, on the basis of my review as described, whether anything has come to my attention that causes me to believe that for the year NULIS Nominees (Australia) Limited does not have adequate systems to identify future risks arising from proposed future activities and to manage and monitor future compliance with the Risk Management Strategy of NULIS Nominees (Australia) Limited, and the Risk Management Plan of PremiumChoice Retirement Service.

A review of systems consists of making enquiries of the RSE licensee and other procedures as are considered necessary in the circumstances. I have performed the review procedures having regard to relevant standards and guidance issued by the Auditing and Assurance Standards Board.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable me to obtain assurance that I am aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Because of the inherent limitations of any systems to ensure compliance, including future compliance, with any Risk Management Strategy or Risk Management Plan, it is possible that risks may arise which are not included in, or appropriately managed by, the Risk Management Strategy or Risk Management Plan, or that fraud, errors, or non-compliance with laws and regulations may occur and not be detected. A review is not designed to detect all instances of non-compliance, or weaknesses in the risk management measures in the Risk Management Strategy and Risk Management Plan, as a review is not performed continuously throughout the year and the review procedures performed in respect of compliance, including future compliance, with the Risk Management Strategy, and Risk Management Plan, are undertaken on a test basis.

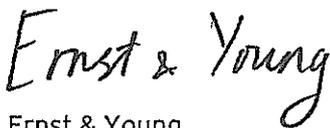
Any projection of the systems to ensure compliance with the Risk Management Strategy and Risk Management Plan to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

#### Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that, in all material respects, NULIS Nominees (Australia) Limited does not have adequate systems, being the relevant processes and procedures, to identify future risks arising from proposed future activities and to manage and monitor future (the twelve month period following the date of this review report) compliance with the Risk Management Strategy, and Risk Management Plan of PremiumChoice Retirement Service.



Luke Slater  
Partner



Ernst & Young  
Melbourne  
18 October 2012

PREMIUMCHOICE RETIREMENT SERVICE ABN: 70 479 285 132

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE TRUSTEE AND MEMBERS

### Financial statements

I have audited the financial statements of PremiumChoice Retirement Service for the year ended 30 June 2012 comprising the statement of financial position, operating statement, cash flow statement, summary of significant accounting policies, other explanatory notes and the Trustee statement.

### Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the SIS Act and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of PremiumChoice Retirement Service.

My audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements 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 trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

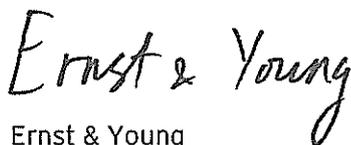
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Auditor's Opinion**

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the financial position of PremiumChoice Retirement Service as at 30 June 2012 and the results of its operations and its cash flows for the year ended 30 June 2012.



Luke Slater  
Partner



Ernst & Young  
Melbourne  
18 October 2012