Military Superannuation and Benefits Fund (ABN 50 925 523 120)

Statement by the Trustee of the Military Superannuation and Benefits Fund ('Fund')

The Board of Directors hereby states that in its opinion:

(a) the attached financial statements give a true and fair view of the matters required by Australian Accounting Standards, including AAS 25 *'Financial Reporting by Superannuation Plans'* ;

(b) the attached financial statements give a true and fair view of the net assets of the Military Superannuation and Benefits Fund No. 1 (defined in Note 1) as at 30 June 2016 and the changes in net assets of the Fund for the year ended 30 June 2016;

(c) at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;

(d) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(e) the financial statements have been prepared based on properly maintained financial records; and

(f) the operations of the Military Superannuation and Benefits Scheme (Scheme) (defined at Note 1) were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011* , the *Military Superannuation and Benefits Act 1991* , the Trust Deed establishing the Fund, the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed this 27th day of September 2016 in accordance with a resolution of Directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Fund.

Patricia Cross
Chairman

Nadine Flood
Director

Military Superannuation and Benefits Fund
Statement of Changes in Net Assets
For the Year Ended 30 June 2016

	Note	2016 $'000	2015 $'000
Net assets available to pay benefits at the start of the financial year		**6 798 396**	5 765 203
Net Investment revenue			
Interest		**664**	746
Changes in net market values	5c	**143 002**	725 257
		143 666	726 003
Contribution revenue			
Member contributions	6a	**315 948**	271 124
Employer contributions	6a	**180 264**	177 979
Government co-contributions	6a	**2 060**	2 509
Low income superannuation contributions	6a	**790**	909
Net appropriation from Consolidated Revenue Fund	6b	**499 906**	439 406
		998 968	891 927
Total revenue		**1 142 634**	1 617 930
Benefits paid	6b	**(617 963)**	(557 928)
Total expenses		**(617 963)**	(557,928)
Change in net assets before income tax		**524 671**	1 060 002
Income tax expense	7a	**(27 137)**	(26 809)
Change in net assets after income tax		**497 534**	1 033 193
Net assets available to pay benefits at the end of the financial year		**7 295 930**	6 798 396

The attached notes form part of these financial statements.

Military Superannuation and Benefits Fund
Statement of Net Assets
As at 30 June 2016

	Note	2016 $'000	2015 $'000
Investments			
Pooled superannuation trust	4	**7 261 675**	6 792 394
Total Investments		**7 261 675**	6 792 394
Other assets			
Cash and cash equivalents		**62 107**	34 019
Sundry debtors	8	**4 009**	4 120
Total other assets		**66 116**	38 139
Total assets		**7 327 791**	6 830 533
Benefits payable		**4 395**	5 140
Sundry payables		**409**	256
Current tax liabilities	7b	**27 049**	26 733
Deferred tax liabilities	7c	**8**	8
Total liabilities		**31 861**	32 137
Net assets available to pay benefits at the end of the financial year		**7 295 930**	6 798 396

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

1. DESCRIPTION OF THE SCHEME AND THE FUND

The Military Superannuation and Benefits Scheme ('Scheme') (ABN 50 925 523 120) is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991* . The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 880 817 243).

The Scheme is operated for the purpose of providing members of the Australian Defence Force (and their dependants or beneficiaries) with lump sum and pension benefits upon retirement, termination of service, death or disablement. For the purposes of the Scheme, the Military Superannuation and Benefits Fund No. 1 (Fund) accepts employer contributions from the Department of Defence, other government contributions, members' contributions, transfers from other superannuation funds, and contributions made by members for the benefit of their spouse.

Administration of member records, contributions receipts and benefit payments were historically conducted on behalf of the Trustee by ComSuper. Following the passage of the *Governance of Australian Government Superannuation Schemes Legislation Amendment Bill 2015* on 15 June 2015, ComSuper was merged into CSC on 1 July 2015. CSC continues to be the trustee of the public sector and defence force superannuation schemes and now also performs the scheme administration activities formerly undertaken by ComSuper.

The principal place of business and registered office of the Trustee is Level 8, 121 Marcus Clarke Street, Canberra ACT 2601.

The Scheme was closed to new members from 30 June 2016 and a new accumulation plan, Australian Defence Force (ADF) Super was established for new members of the Australian Defence Force from 1 July 2016, together with a new invalidity scheme, ADF Cover.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Fund is a general purpose financial report which has been prepared in accordance with Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. Accounting Standards include Australian Accounting Standards and International Financial Reporting Standards ('IFRS') to the extent that they are not inconsistent with *AAS 25 'Financial Reporting by Superannuation Plans'.* For the purposes of preparing financial statements, the Fund is a not-for-profit entity.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The financial statements have been prepared on the basis required by the Defined Benefit Plan provisions of AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels. The Trustee adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and notes thereto.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* .

The financial statements of the Fund were authorised for issue by the Directors of the Trustee on 27 September 2016.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Australian Accounting Standards require disclosure of Australian Accounting Standards that have not been applied for Standards that have been issued but are not yet effective. The Trustee expects to adopt the Standards disclosed below upon their application date to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'* (noting however that AASB 1056 *'Superannuation Entities'* replaces AAS 25 *'Financial Reporting by Superannuation Plans').*

AASB 1056 '*Superannuation Entities'*

AASB 1056 *'Superannuation Entities'* was issued on 5 June 2014. It replaces AAS 25 *'Financial Reporting by Superannuation Plans'* with effect for annual reporting periods beginning on or after 1 July 2016 but can be applied earlier. The Trustee has elected not to early adopt AASB 1056 *'Superannuation Entities'.*

The key impacts on the financial statements of the Fund include:

- Preparation of five primary financial statements (rather than the current two), being:
  - Statement of Financial Position;
  - Income Statement;
  - Statement of Changes in Equity/Reserves;
  - Statement of Cash Flows; and
  - Statement of Changes in Member Benefits.
- The recognition of member benefits as a liability on the face of the Statement of Financial Position measured at each reporting date. As disclosed in Note 12, the liability for accrued member benefits at 30 June 2014 (being the date of the most recent valuation by the Australian Government Actuary) was $32.5 billion.
- The recognition of an ‘employer sponsor receivable’ to recognise the Commonwealth Government’s legislated obligation under the *Military Superannuation and Benefits Act 1991* to meet the shortfall between the liability for accrued benefits and the fair value of the net assets available to meet that liability. Based on the fair value of net assets at 30 June 2015 and the most recent valuation of member benefits liabilities (as referred to above), the employer sponsor receivable at 30 June 2015 would be $25.7 billion.
- Additional disclosures on estimates, financial risk management and policies for managing defined benefit liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

AASB 1056 requires the measurement approach of 'fair value through profit or loss' for all assets and liabilities, except for specific exemptions including member benefits, tax assets and liabilities and employer sponsor receivables. The investments of the Fund are currently already measured at redemption price at the close of business on the last business day of the reporting period and therefore this change in measurement approach will have no impact on the valuation of the Fund's investments.

Other Standards in issue but not effective

In addition to AASB 1056 *'Superannuation Entities'* , the following Standards were in issue but not yet effective at the date of authorisation of the financial report. It is anticipated that the adoption of the Standards disclosed below will not have a material financial impact on the financial report of the Scheme:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', **AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', and **AASB 2015-8**	1 January 2018	30 June 2019
AASB 2014-10 'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exemption'	1 January 2016	30 June 2017

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The following new and revised Standards and Interpretations have been adopted in these financial statements. The adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	beginning on or after 1 July 2015

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Fund.

Amounts in these financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

(c) Use of judgements and estimates

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented in these financial statements for the year ended 30 June 2015.

(a) Assets

Assets are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market value of investments includes a deduction for selling costs which would be expected to be incurred if the investments were sold.

Financial assets (being investments in a pooled superannuation trust, cash at bank and sundry debtors) are recognised on the date the Fund becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date, any gains and losses from changes in net market value are recorded.

Net market value means the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. If the price used is the selling or redemption price a deduction for selling costs has already been included. Otherwise, as selling costs are generally immaterial, net market value approximates fair value unless otherwise stated.

Net market values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the net market value of the underlying investments.

(ii) Sundry debtors are recognised at the amounts receivable. All amounts are unsecured and are subject to normal trade credit terms.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(c) Foreign Currency Transactions

The Fund does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being benefits payable and sundry payables) are recognised at their nominal value which is equivalent to net market value.

Benefits payable
Benefits payable to a member are recognised where a valid withdrawal notice has been received from the employer sponsor, and approved, but payment has not been made by reporting date.

Sundry Payables
Sundry payables represent liabilities for goods and services provided during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

(e) Operational risk reserve

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in separate cash options of the ARIA Investments Trust and income earned on these assets is recognised in the reserve.

(f) Derivatives

The Fund does not enter into derivative financial instruments.

(g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

Investment revenue
Interest revenue is recognised on an accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Revenue (continued)

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

Contribution revenue
Employer and member contributions, transfers from other funds and superannuation co-contributions and low income superannuation contributions from the Commonwealth Government are recognised on a cash basis.

(h) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Net Assets as an accrual or payable depending upon whether or not the expense has been billed.

(i) Income Tax

Income tax on change in net assets for the year comprises current and deferred tax. Income tax is recognised in the Statement of Changes in Net Assets except to the extent that it relates to items recognised directly in members' funds. As the Scheme invests in the ARIA Investments Trust ('AIT'), which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current period is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Income Tax (continued)

Deferred tax (continued)
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Fund expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Statement of Changes in Net Assets.

(j) Scheme liability for accrued benefits

The liability for accrued benefits is the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to date of measurement. The present value is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

The liability for accrued benefits is not included in the Statement of Net Assets, but is reported at Note 12.

The liability for accrued benefits is measured by an independent actuary on at least a triennial basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office ('ATO') as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Net Assets.

4. INVESTMENTS

	2016 **$'000**	2015 $'000
Pooled Superannuation Trust - ARIA Investments Trust	**7 261 675**	6 792 394
	7 261 675	6 792 394

5. CHANGES IN NET MARKET VALUES OF INVESTMENTS

	2016 **$'000**	2015 $'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**142 476**	718 187
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**526**	7 070
(c) Total changes in net market values of investments	**143 002**	725 257

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

6. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Fund each fortnight at optional rates ranging from a minimum of 5% of salary, to a maximum of 10% of salary. The contribution rates were the same in the prior year.

Employer Contributions
The Department of Defence contributes to the Fund each fortnight in respect of each member at the rate of 3% of the member's salary. The contribution rates were the same in the prior year. Employers may also make salary sacrifice contributions (before tax) and Ordinary Time Earnings top up contributions to the Fund on behalf of members.

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be rolled over to the Fund.

Government Co-Contributions
For the financial years ended 30 June 2016 and 30 June 2015, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Fund up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500 for the financial years 2012-13 to 2016-17. LISC payments are recognised as revenue when received.

(b) Benefits

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the employer and calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of contributions made to the Fund by the Department of Defence) and an unfunded component (the balance of the defined benefit).

In general, when a benefit becomes payable to a member, the accumulated member and employer contributions held in the Fund in respect of the member are transferred to the Consolidated Revenue Fund (CRF) which pays out the total benefit (both funded and unfunded components).

Appropriation refers to the total amount paid from the CRF. The appropriation from CRF shown in the Statement of Changes in Net Assets is the net amount after taking into account transfers from the Fund to the CRF.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

6. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Of the total benefits payable as at 30 June 2016, $2.23 million (2015: $2.72 million) is payable by the Consolidated Revenue Fund. The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

Benefits paid and payable by the Fund and the Consolidated Revenue Fund during the year are as follows:

	2016 $'000	2015 $'000
Gross Appropriation from Consolidated Revenue Fund	**584 376**	524 153
less: Transfers from Fund to Consolidated Revenue Fund	**(84 470)**	(84 747)
Net Appropriation	**499 906**	439 406
Consolidated Revenue Fund		
Lump-sum benefits	**137 149**	150 098
Pensions	**447 227**	374 055
	584 376	524 153
Military Superannuation & Benefits Fund		
Lump-sum benefits	**33 587**	33 775
Total benefits paid	**617 963**	557 928

(c) Costs of managing, investing and administering the Fund

Costs of and incidental to the management of the Fund and the investment of its money are charged against the assets of the ARIA Investments Trust ('AIT') that are referable to the Fund. Transactions in respect of these costs have been brought to account in the financial statements of AIT.

The costs of member administration were met by ComSuper until 30 June 2015. Following the passage of the *Governance of Australian Government Superannuation Schemes Legislation Amendment Bill 2015* on 15 June 2015, ComSuper was merged into CSC on 1 July 2015. From this date, costs of member administration are being met by CSC. CSC continues to be the trustee of the Scheme and now also performs the scheme administration activities formerly undertaken by ComSuper.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

6. FUNDING ARRANGEMENTS (continued)

(c) Costs of managing, investing and administering the Fund (continued)

Expenses met by the AIT and referable to the Fund are:

	2016 $'000	2015 $'000
Investment		
Investment manager fees	**6 975**	8 235
Custodian fees	**998**	1 011
Investment consultant and other service provider fees	**842**	772
Other investment expenses	**519**	461
Total direct investment expenses	**9 334**	10 479
Regulatory fees	**895**	956
Other operating expenses	**4 592**	5 175
Total costs	**14 821**	16 610

Administrative fees are paid to CSC by the Department of Defence to meet costs other than those incurred in managing and investing Scheme assets. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee (and ComSuper prior to 1 July 2015).

Sponsoring employers contributed the following to Scheme administration costs:

	2016 $'000	2015 $'000
Trustee costs	**20 446**	1 528
ComSuper costs	**-**	19 661
Total	**20 446**	21 189

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

7. INCOME TAX

(a) Income tax recognised in the Statement of Changes in Net Assets

	2016 $'000	2015 $'000
Tax expense comprises:		
Current tax expense	**27 137**	26 812
Deferred tax expense / (income) relating to the originiation and reversal of temporary differences	**-**	(2)
Under / (over) provided in prior years	**-**	(1)
Total tax expense	**27 137**	26 809

The prima facie income tax expense on the benefits accrued as a result of operations before income tax reconciles to the income tax expense in the Statement of Changes in Net Assets as follows:

Increase in net assets for the year before income tax	**524 671**	1 060 002
Income tax expense calculated at 15%	**78 701**	159 000
Add / (less) permanent differences - items not assessable or deductible		
Member contributions, Government co-contributions and low income superannuation contributions	**(47 822)**	(41 179)
Benefits paid	**92 694**	83 689
Appropriation from Consolidated Revenue Fund	**(74 986)**	(65 911)
Investment revenue already taxed	**(21 450)**	(108 789)
Prior year under / (over) provision	**-**	(1)
Total tax expense	**27 137**	26 809

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

7. INCOME TAX (continued)

	2016 **$'000**	2015 $'000
(b) Current tax liabilities		
Current tax payables:		
Provision for current year income tax	**27 049**	26 733
	27 049	26 733
(c) Deferred tax balances		
Deferred tax liabilities comprise:		
Temporary differences	**8**	8
	8	8

Taxable and deductible temporary differences arise from the following:

2016	**Opening balance $'000**	**Charged to income $'000**	**Closing balance $'000**
Gross deferred tax liabilities:			
Interest receivable	**8**	**-**	**8**
	8	**-**	**8**
Net deferred tax liabilities	**8**	**-**	**8**

2015	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax liabilities:			
Interest receivable	10	(2)	8
	10	(2)	8
Net deferred tax liabilities	10	(2)	8

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

8. SUNDRY DEBTORS

	2016 $'000	2015 $'000
Receivable from the ARIA Investments Trust	**90**	68
Interest receivable	**50**	56
Amount to be appropriated from Consolidated Revenue Fund	**3 869**	3 996
	4 009	4 120

No sundry debtors are past due or impaired (2015: Nil).

9. OPERATIONAL RISK RESERVE

	2016 $'000	2015 $'000
Opening balance	**11 292**	5 997
Transfers to reserve	**14 032**	5,125
Earnings on reserve	**290**	170
Closing balance	**25 614**	11 292

10. AUDITOR'S REMUNERATION

Amounts paid or payable to the Australian National Audit Office for audit services:

	2016 $	2015 $
Financial statements	**63 325**	67 325
Regulatory returns and compliance	**35 175**	35 175
Total	**98 500**	102 500

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Fund.

Deloitte Touche Tohmatsu are contracted by the ANAO to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Fund during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

11. VESTED BENEFITS

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

The actuarial estimate of vested benefits at 30 June 2016 is $36.3 billion (2015: $33.1 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2016 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension payments.

	2016 **$billion**	2015 $billion
The vested benefits amount is made up of :		
Funded component	**7.3**	6.8
Unfunded component	**29.0**	26.3
	36.3	33.1
The net assets of the Fund compared to the vested benefits are:		
Funded component	**7.3**	6.8
Net assets	**7.3**	6.8
Surplus / (deficiency)	**-**	-

The net assets of the Fund includes $25,614,196 of assets backing the operational risk reserve (2015: $11,292,399).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

12. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future benefit payments that arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component (i.e. accumulated member contributions, and, where applicable, productivity contributions, plus interest) which will be met from the Fund, and an unfunded component that, pursuant to the *Military Superannuation and Benefits Act 1991* , will be funded from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the Scheme is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review as at 30 June 2014. A summary of the review is attached.

	2014	2011
	$billion	$billion
Accrued benefits as at 30 June were:		
Funded component	**5.8**	3.7
Unfunded component	**26.7**	19.3
	32.5	23.0

The net assets of the Fund compared to the liability for accrued benefits are as follows:

	2014	2011
Funded component	**5.8**	3.7
Net assets	**5.8**	3.7
Surplus / (deficiency)	**-**	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Fund (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the ARIA Investments Trust (AIT). AIT is a pooled superannuation trust which is also governed by the Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Fund and is in accordance with the Fund's published investment strategy. The Trustee applies strategies to manage risk relating to the investment activities of the AIT. The investments of AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

(c) Capital risk management

The RSE licence of the Trustee of the Scheme requires the Trustee to maintain a balance of at least $100 000 at all times in an administration reserve account in the AIT. This is required to be maintained in cash or cash equivalents. The Trustee of the Scheme was in compliance with this requirement throughout the year.

(d) Categories of financial instruments

The financial assets and liabilities of the Fund are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value, which is the carrying value, approximates fair value. Changes in net market value are recognised in the Statement of Changes in Net Assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its pooled investment in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Fund's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Fund's financial performance. These policies may include the use of financial derivative instruments.

The Trustee is responsible for ensuring that there is an effective risk management control framework in place for the Fund. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Fund and for the Fund's investments through the AIT. The overall investment strategy of the Fund is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Fund's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

The Fund's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. In its capacity as trustee of the AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Fund's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2016 or 30 June 2015.

The credit risk on the Fund's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2016	2015
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**7 261 675**	6 792 394
Other financial assets		
Cash and cash equivalents	**62 107**	34 019
Sundry debtors	**4 009**	4 120
	7 327 791	6 830 533

There has been no change to the Fund's exposure to credit risk or the manner in which it manages and measures that risk during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its liabilities and/or member benefit payments or tax liabilities.

The Trustee's approach to managing liquidity is to ensure that the Fund will always have sufficient liquidity to meet its liabilities as they fall due. On resignation the member benefit accrued before 30 June 1999 can be paid as a lump sum but the balance must be preserved until the member's preservation age, either in the Fund or another complying superannuation fund. The employer benefit, including productivity component, must be preserved in the Fund. The unfunded component of benefit payments is financed by the Commonwealth, from the CRF. As such there is minimal liquidity risk.

The Fund's exposure to liquidity risk is therefore limited to those circumstances in which the Scheme Rules allow members to withdraw benefits.

The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Fund to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements. As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

The following tables summarise the maturity profile of the Fund's financial liabilities. Vested benefits have been included in the less than three months column, as this is the amount that members could call upon as at reporting date. This is the earliest date on which the Fund can be required to pay members' vested benefits. However, members may not necessarily call upon amounts vested to them during this time. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2016					
Sundry payables	**409**	**-**	**-**	**-**	**409**
Benefits payable	**4 395**	**-**	**-**	**-**	**4 395**
Vested benefits	**36 317 000**	**-**	**-**	**-**	**36 317 000**
Total financial liabilities	**36 321 804**	**-**	**-**	**-**	**36 321 804**
30 June 2015					
Sundry payables	256	-	-	-	256
Benefits payable	5 140	-	-	-	5 140
Vested benefits	33 111 000	-	-	-	33 111 000
Total financial liabilities	33 116 396	-	-	-	33 116 396

There has been no change to the Fund's exposure to liquidity risk or the manner of management of the risk during the reporting period.

(h) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been no change to the Fund's exposure to market risk or the manner in which it manages and measures that risk since the 2015 reporting period.

Foreign currency risk
Foreign currency risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Foreign currency risk (continued)
The Fund does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Fund is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from the its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, remain unhedged due to lack of suitable currency instruments for hedging.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2016 and 30 June 2015 had a maturity profile of less than one month.

The Fund is indirectly exposed to interest rate risk through its investments in the AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

The following table illustrates the Fund's sensitivity to a 0.3% p.a. (2015: 0.4%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.3% (2015: 0.4%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	**Interest rate risk $' 000**			
		Changes in net assets	**Net assets available to pay benefits**	**Changes in net assets**	**Net assets available to pay benefits**
2016		-0.3%		+0.3%	
Cash and cash equivalents	**62 107**	**(186)**	**(186)**	**186**	**186**
2015		-0.4%		+0.4%	
Cash and cash equivalents	34 019	(136)	(136)	136	136

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Fund during the financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

The Fund's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in AIT is carried at net market value with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect the Fund's net investment income.

In its capacity as trustee of AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Fund's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factors shown represent the average annual volatility of comparable option prices expected for the Fund's investment in the ARIA Investments Trust. For the Cash Option and the investments backing the operational risk reserve, a factor of 0.3% (2015: 0.4%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

	Change in price	Carrying amount $'000	Price risk $' 000			
			Changes in net assets	Net assets available to pay benefits	Changes in net assets	Net assets available to pay benefits
2016						
Financial Assets						
ARIA Investments Trust :						
Balanced Option	-/+5.2%	6 678 489	(347 281)	(347 281)	347 281	347 281
Cash Option	-/+0.3%	57 126	(171)	(171)	171	171
Income Focused Option	-/+2.0%	39 881	(718)	(718)	718	718
Aggressive Option	-/+6.4%	460 655	(29 482)	(29 482)	29 482	29 482
Operational risk reserve	-/+0.3%	18 040	(54)	(54)	54	54
Operational risk reserve AIT[1]	-/+0.3%	7 484	(22)	(22)	22	22
Total increase / (decrease)		7 261 675	(377 728)	(377 728)	377 728	377 728
2015						
Financial Assets						
ARIA Investment Trust :						
Balanced Option	-/+5.4%	6 284 941	(339 387)	(339 387)	339 387	339 387
Cash Option	-/+0.4%	40 221	(161)	(161)	161	161
Income Focused Option	-/+2.0%	27 355	(547)	(547)	547	547
Aggressive Option	-/+6.6%	428 653	(28 291)	(28 291)	28 291	28 291
Operational risk reserve	-/+0.4%	11 224	(45)	(45)	45	45
Total increase / (decrease)		6 792 394	(368 431)	(368 431)	368 431	368 431

[1] In accordance with the Australian Prudential Regulatory Authority *Prudential Practice Guide SPG 114 – Operational Risk Financial Requirement (SPG 114)* a separate option for the Operational Risk Reserve has been created to reflect that the scheme invests through a Pooled Superannuation Trust.

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurement

The Fund's financial instruments are included in the Statement of Net Assets at net market value that approximates fair value. The net market value is determined per accounting policies disclosed in Note 3(a).

Net market value measurements recognised in the Statement of Net Assets
The following table provides an analysis of the Fund's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: net market value measurements are those derived from quoted prices in active markets.

Level 2: net market value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: net market value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Financial Assets				
Pooled superannuation trust	**-**	**7 261 675**	**-**	**7 261 675**
2015				
Financial Assets				
Pooled superannuation trust	-	6 792 394	-	6 792 394

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

Reconciliation of Level 3 net market value measurements
There were no Level 3 financial assets or liabilities for the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged by CSC for acting as Trustee of the Scheme during the reporting period.

(b) Key Management Personnel

The Directors throughout the year ended 30 June 2016 and to the date of the report were:

Tony Cole
Patricia Cross (Chairman)
Christopher Ellison
Peter Feltham (term ended 30 June 2016)
Nadine Flood
Lyn Gearing (term ended 12 September 2016)
Winsome Hall
John McCullagh (term ended 30 June 2016)
Peggy O'Neal
Margaret Staib
Michael Vertigan (term ended 30 June 2016)

The following Directors were appointed subsequent to year-end:

Ariane Barker (appointed 13 September 2016)
Garry Hounsell (appointed 1 July 2016)
Anthony Needham (appointed 1 July 2016)
Sunil Kemppi (appointed 1 July 2016)

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Fund throughout the year ended 30 June 2016:

Paul Abraham	General Manager, Investment Operations (Commenced 21 March 2016)
Helen Ayres	Corporate Secretary (Resigned 30 June 2016)
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration (Commenced 1 July 2015)
Richard Hill	General Manager, Information Technology (Commenced 28 September 2015)
Leonie McCracken	General Manager, Operations (Resigned 18 March 2016)
Bronwyn McNaughton	General Counsel
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (Resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance & Risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel is set out below:

	2016	2015
	$	$
Short-term employee benefits	**394 602**	312 422
Post-employment benefits	**43 382**	36 005
Other long-term benefits	**31 278**	23 859
	469 262	372 286

Aggregate compensation in relation to the Fund is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the AIT that are referable to the Fund.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

(d) Investing entities

Throughout the year ended 30 June 2016, the Fund's only investment has consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in AIT throughout the year were the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme and the Public Sector Superannuation Accumulation Plan. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Fund, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan and the Military Superannuation and Benefits Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

14. RELATED PARTIES (continued)

(d) Investing entities (continued)

The Trustee pays costs of and incidental to the management of the Fund and the investment of its money from the assets of the AIT that are referable to the Fund (see Note 6(c)). No fees were charged for acting as Trustee during the year ended 30 June 2016 (2015: $nil).

The Fund held the following investments in related parties at 30 June:

	Net Market Value of Investment	Net Market Value of Investment	Share of Net Income/ (Loss) after tax	Share of Net Income/ (Loss) after tax
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**7 261 675**	6 792 394	**143 002**	725 257
	7 261 675	6 792 394	**143 002**	725 257

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Fund had no capital or other expenditure commitments at 30 June 2016 (2015: $nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Fund which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Fund.

There were no other contingent liabilities or contingent assets for the Fund at 30 June 2016 (2015: $nil).

16. SUBSEQUENT EVENTS

The Scheme was closed to new members from 30 June 2016 and a new accumulation plan, Australian Defence Force (ADF) Super was established for new members of the Australian Defence Force from 1 July 2016, together with a new invalidity scheme, ADF Cover.

No other matters have arisen since 30 June 2016 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

17 August, 2015

MILITARY SUPERANNUATION AND BENEFITS SCHEME

SUMMARY OF THE 2014 LONG TERM COST REPORT

1. A report on the long term cost of the Military Superannuation Schemes which includes the Military Superannuation and Benefits Scheme (MSBS), was carried out using data as at 30 June 2014 by the Australian Government Actuary.

2. The standard defined benefit section of the MSBS is partially funded and has an underlying Government guarantee. Member contributions and the employer 3% Productivity Benefit contributions are paid into the MSBS Fund. Any MSBS benefit payment amounts not paid from Fund assets are paid from Consolidated Revenue.

3. From 1 July 2008, following changes in the Superannuation Guarantee regime, additional employer superannuation contributions have been paid into the Ancillary Section of the MSBS in respect of allowances that are regarded as being part of Ordinary Time Earnings but are not included in the existing definition of superannuation salary. These additional contributions are payable in respect of serving ADF members in both MSBS and DFRDB. The Ancillary Section also includes salary sacrifice contributions, amounts transferred into the scheme and spouse contributions. The Ancillary Section is fully funded and provides lump sum accumulation benefits.

4. Projections of the actual annual employer cash costs of the military schemes (MSBS, DFRDB and DFRB) as a percentage of Gross Domestic Product (GDP) were made over a period of 41 years. Projections were done on two bases. The first assumed that MSBS would remain open to new members indefinitely. The second assumed that the MSBS would be closed to new members from 1 July 2016 in line with Government announcements. Both of these projections showed a progressive fall in the combined cash cost of the three schemes as a percentage of GDP. Given the underlying Government guarantee, I was therefore of the opinion that the financial position of the schemes as at 30 June 2014 was satisfactory.

5. The value of net assets of the MSBS available to pay benefits as at 30 June 2014 reported in the audited financial statements of the Fund was $5,765 million. Included in this are Ancillary Section accounts totalling $658 million.

6. The value of accrued benefits for the combined defined benefit section and the Ancillary Section of the MSBS using the actuarial Projected Unit Credit (PUC) methodology as at 30 June 2014 was $32.5 billion. This comprised $26.7 billion in unfunded accrued benefits and $5.8 billion in funded accrued benefits. The value of accrued benefits is the present value of the portion of projected benefit payments that had accrued in respect of membership of the MSBS to 30 June 2014. The employer component of the benefits for contributors was apportioned on the basis used to calculate accrued benefits for purposes of Australian Accounting Standard AASB 119.

7. As would be expected in a substantially unfunded arrangement, the value of total accrued benefits is more than the audited value of scheme assets at the same date.

8. A summary of the MSBS data[1] used for the valuation is set out below:

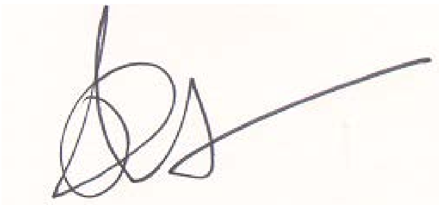
   - 54,974 contributors with total superannuation salaries of $4,364m
   - 97,139 preserved beneficiaries with total nominal preserved benefits of $8,062m
   - 10,837 pensioners with total annual pensions of $326m.

9. The major assumptions used in the calculations were as follows:

   - Pension increases (CPI): 2.5% per annum (unchanged from the 2011 review)
   - Interest Rate: 3.5% per annum real (6.0% per annum nominal, unchanged from the 2011 review)
   - Inflationary salary increases: 1.5% per annum real (4.0% per annum nominal, unchanged from the 2011 review)
   - Promotional salary increases: scales based upon age and length of service
   - GDP increases: a series of rates starting at 2.9% (real) for 2014/15, 3.1% (real) for 2015/16 to 2017/18, 3.2% (real) for 2018/19 and then gradually falling to 2.4% (real) from 2052/53 onwards.

10. The value of the vested benefits of the MSBS was not calculated as part of the 2014 Long Term Cost Report. This value is calculated separately on an annual basis for the MSBS financial statements and covers contributors, preserved members and pensioners, and includes Ancillary Section accounts. As at 30 June 2014, the value of vested benefits was $29.5 billion.

    It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 2014 and elected the most costly option to the scheme.



Peter Martin
Fellow of the Institute of Actuaries of Australia
Australian Government Actuary

[1] This excludes individuals whose only interest in the MSBS is an Ancillary Section account.