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**AMP Life Limited  
(New Zealand Branch)**



**Financial Statements  
31 December 2011**

# **AMP Life Limited (New Zealand Branch)**

## **Foreword**

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### **Financial Statements**

The following financial statements have been drawn up to comply with the Financial Reporting Act 1993 and New Zealand equivalents to International Financial Reporting Standards. They relate to the New Zealand activities of the statutory entity, AMP Life Limited, and are prepared as if the branch was a stand alone entity. They do not include the New Zealand activities of other AMP entities (including AMP Bank Limited and AMP Capital Investors (New Zealand) Limited).

### **Registered Office**

The Registered Office of AMP Life Limited is Level 24, 33 Alfred Street, Sydney, NSW 2000, Australia.

**AMP Life Limited (New Zealand Branch)**  
**Financial Statements for the year ended 31 December 2011**

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**AMP Life Limited (New Zealand Branch)**  
**Income Statement for the year ended 31 December 2011**

		Consolidated		Parent	
		2011	2010	2011	2010
	Note	\$000	\$000	\$000	\$000
<b>Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests in controlled companies</b>					
Life insurance premium and related revenue	5(a)	212,263	209,006	212,263	209,006
Fee and other revenue	5(b)	100,896	98,563	3,001	3,053
Investment gains and (losses)	5(c)	273,245	229,811	267,513	248,414
Life insurance claims and related expenses	6(a)	(214,019)	(199,389)	(214,019)	(199,389)
Operating expenses	6(b)	(193,802)	(182,969)	(76,172)	(104,778)
Finance costs	6(c)	(596)	(980)	(293)	(410)
Change in policyholder liabilities					
- life insurance contracts	16(e)	29,710	(12,483)	29,710	(12,483)
- investment contracts	17(g)	292	(8,707)	292	(8,707)
Profit for the year before income tax		207,989	132,852	222,295	134,706
Income tax expense	7(a)	(107,388)	(56,462)	(111,039)	(49,078)
Net profit for the year after income tax		100,601	76,390	111,256	85,628
(Profit) / loss attributable to non-controlling interests		(515)	(2,363)	-	-
<b>Profit for the year attributable to the shareholder of AMP Life Limited</b>		<b>100,086</b>	<b>74,027</b>	<b>111,256</b>	<b>85,628</b>

The accompanying notes form part of these financial statements





**AMP Life Limited (New Zealand Branch)****Statement of Comprehensive Income for the year ended 31 December 2011**

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>Net profit for the year after income tax</b>	<b>100,601</b>	<b>76,390</b>	<b>111,256</b>	<b>85,628</b>
<b>Other comprehensive income recognised in retained earnings</b>				
Defined benefit funds				
- actuarial losses	(7,128)	(605)	-	-
- income tax credit	1,996	182	-	-
	(5,132)	(423)	-	-
<b>Other comprehensive income recognised in other reserves</b>				
- other gains	436	728	-	-
- income tax expense	-	-	-	-
	436	728	-	-
<b>Total comprehensive income for the year</b>	<b>95,905</b>	<b>76,695</b>	<b>111,256</b>	<b>85,628</b>
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>(515)</b>	<b>(2,363)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year attributable to the shareholder of AMP Life Limited</b>	<b>95,390</b>	<b>74,332</b>	<b>111,256</b>	<b>85,628</b>

The accompanying notes form part of these financial statements



**AMP Life Limited (New Zealand Branch)**  
Statement of Financial Position as at 31 December 2011

		Consolidated		Parent	
	Note	2011 \$000	2010 \$000	2011 \$000	2010 \$000
<b>Assets</b>					
Cash and cash equivalents	20(b)	137,713	207,914	26,339	37,600
Receivables	8	82,301	74,687	51,423	43,654
Current tax assets		13,585	-	4,444	-
Inventories and other assets	10	14,772	12,203	42	32
Investments in financial assets	9	2,464,517	2,319,938	2,604,218	2,494,298
Plant and equipment	11	11,365	12,170	-	-
Intangibles	12	19,048	7,605	-	-
Deferred tax assets	7(c)	15,267	15,327	-	-
<b>Total assets of the shareholder of AMP Life Limited, policyholders, external unitholders and non-controlling interests</b>					
		2,758,568	2,649,844	2,686,466	2,575,584
<b>Liabilities</b>					
Payables	13	60,360	75,553	66,335	79,674
Current tax liabilities		-	9,768	-	11,917
Provisions	14	31,320	28,245	-	-
Borrowings	15	3,534	2,854	-	-
Derivative financial liabilities	18(f)	13,628	25,160	397	16,324
Deferred tax liabilities	7(d)	215,176	127,823	215,176	127,823
Life Insurance contract liabilities	16(e)	1,818,412	1,849,916	1,818,412	1,849,916
Investment contract liabilities	17(g)(ii)	113,324	128,364	113,324	128,364
Defined benefit plan liability	21(e)	17,248	12,500	-	-
<b>Total liabilities of the shareholder of AMP Life Limited, policyholders, external unitholders and non-controlling interests</b>					
		2,273,002	2,260,183	2,213,644	2,214,018
<b>Net assets of the shareholder of AMP Life Limited and non-controlling interests</b>					
		485,566	389,661	472,822	361,566
<b>Equity</b>					
Reserves		1,047	611	-	-
Retained earnings		476,959	382,005	472,822	361,566
<b>Total equity attributable to the shareholder of AMP Life Limited</b>					
		478,006	382,616	472,822	361,566
Non-controlling interests		7,560	7,045	-	-
<b>Total equity of the shareholder of AMP Life Limited and non-controlling interests</b>					
		485,566	389,661	472,822	361,566

For and on behalf of the Board who authorised these financial statements for issue on 7 May 2012:



Director



Director

The accompanying notes form part of these financial statements



# AMP Life Limited (New Zealand Branch)

## Statement of Changes in Equity for the year ended 31 December 2011

### Consolidated

	Equity attributable to shareholder of AMP Life Limited				
	Retained Earnings	Other reserves	Total shareholder equity	Non-controlling interest	Total equity
	\$000	\$000	\$000	\$000	\$000
<b>31 December 2011</b>					
Balance at the beginning of the year	382,005	611	382,616	7,045	389,661
Net profit for the year after income tax	100,086	-	100,086	515	100,601
Other comprehensive income	(5,132)	436	(4,696)	-	(4,696)
Total comprehensive income	94,954	436	95,390	515	95,905
Balance at the end of the year	476,959	1,047	478,006	7,560	485,566
<b>31 December 2010</b>					
Balance at the beginning of the year	362,884	(117)	362,767	4,682	367,449
Net profit for the year after income tax	74,027	-	74,027	2,363	76,390
Other comprehensive income	(423)	728	305	-	305
Total comprehensive income	73,604	728	74,332	2,363	76,695
Dividends paid to Australian shareholders' fund	(30,001)	-	(30,001)	-	(30,001)
Transfer of profit to parent branch	(24,482)	-	(24,482)	-	(24,482)
Balance at the end of the year	382,005	611	382,616	7,045	389,661

### Parent

	Retained Earnings	Other reserves	Total shareholder equity
<b>31 December 2011</b>			
Balance at the beginning of the year	361,566	-	361,566
Net profit for the year after income tax	111,256	-	111,256
Total comprehensive income	111,256	-	111,256
Balance at the end of the year	472,822	-	472,822
<b>31 December 2010</b>			
Balance at the beginning of the year	330,421	-	330,421
Net profit for the year after income tax	85,628	-	85,628
Total comprehensive income	85,628	-	85,628
Dividends paid to Australian shareholders' fund	(30,001)	-	(30,001)
Transfer of profit to parent branch	(24,482)	-	(24,482)
Balance at the end of the year	361,566	-	361,566

The accompanying notes form part of these financial statements



# AMP Life Limited (New Zealand Branch)

Statement of Cash Flows for the year ended 31 December 2011

	Note	Consolidated		Parent	
		2011	2010	2011	2010
		\$000	\$000	\$000	\$000
<b>Cash flows from operating activities</b>					
Cash receipts in the course of operations		315,743	344,605	216,910	213,042
Interest received		98,460	112,560	39,809	53,869
Dividends and distributions received		20,429	23,886	283	34,946
Cash payments in the course of operations		(443,456)	(404,532)	(328,989)	(289,871)
Finance costs		(596)	(980)	(293)	(410)
Income tax (paid) / refunded		(41,332)	(47,443)	(40,047)	(36,309)
<b>Cash flows from / (used in) operating activities</b>	20(a)	<b>(50,752)</b>	<b>28,096</b>	<b>(112,327)</b>	<b>(24,733)</b>
<b>Cash flows from investing activities</b>					
Net proceeds from sale of / (payments to acquire) <sup>1</sup> :					
- investments in financial assets measured at fair value		(8,902)	(140,462)	101,060	81,117
- investments in financial assets measured at amortised cost		3,246	19,671	6	(42,186)
- plant and equipment		(1,596)	(1,240)	-	-
- intangibles		(12,877)	(612)	-	-
<b>Cash flows from investing activities</b>		<b>(20,129)</b>	<b>(122,643)</b>	<b>101,066</b>	<b>38,931</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		-	(1,140)	-	-
Advances of borrowings		680	-	-	-
Dividends paid to Australian shareholders' fund		-	(30,001)	-	(30,001)
Transfer of funds to parent branch		-	(4,800)	-	(4,800)
<b>Cash flows used in financing activities</b>		<b>680</b>	<b>(35,941)</b>	<b>-</b>	<b>(34,801)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(70,201)</b>	<b>(130,488)</b>	<b>(11,261)</b>	<b>(20,603)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>207,914</b>	<b>338,402</b>	<b>37,600</b>	<b>58,203</b>
<b>Cash and cash equivalents at the end of the year</b>	20(b)	<b>137,713</b>	<b>207,914</b>	<b>26,339</b>	<b>37,600</b>

The accompanying notes form part of these financial statements

<sup>1</sup> The amounts shown represent the net cash flows for the financial year.



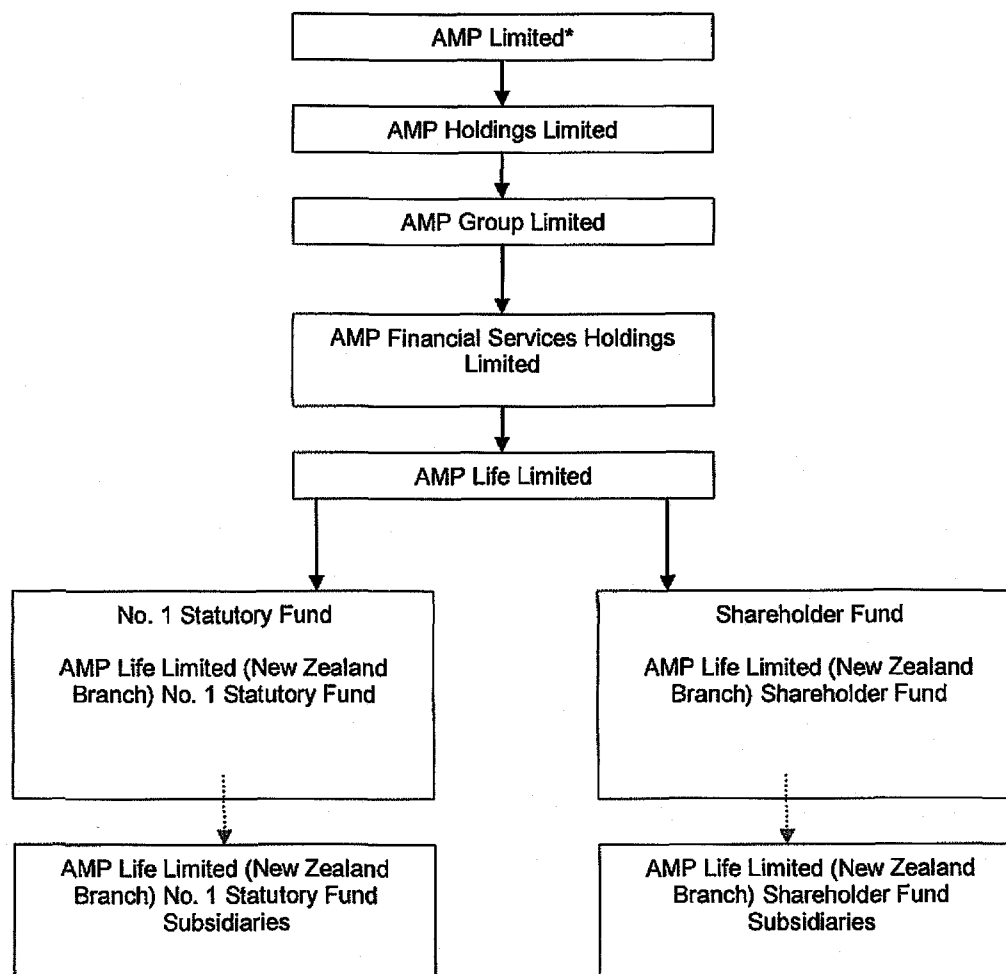
# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 1. CORPORATE INFORMATION

### Reporting entity

AMP Life Limited is registered under the New Zealand Life Insurance Act 1908 ("New Zealand Life Act"). It is incorporated in New South Wales, and registered under Australia's Life Insurance Act 1995 ("Australian Life Act"). AMP Life Limited carries on its life insurance business in New Zealand through a branch establishment and offers securities for sale as part of its business and as such is deemed to be an "issuer" as defined under the New Zealand Financial Reporting Act 1993. AMP Life Limited is not a self-contained legal entity in New Zealand except to the extent that New Zealand incorporated subsidiaries carry out its business. A summarised group structure is as follows:



\*AMP Limited is the ultimate holding company of the AMP Group and is dual listed on the Australian and New Zealand stock exchanges.

The life insurance operations of AMP Life Limited (New Zealand Branch) (hereafter referred to as the 'Branch' or 'Parent') are conducted within a separate statutory fund as required by the Australian Life Act, and are reported in aggregate in the Income statement, Statement of financial position, and the Statement of comprehensive income. Further information on the Statutory Fund and Shareholders' Fund is provided in note 17.

The figures appearing in these financial statements are for the Branch and the consolidation with its New Zealand Group undertakings prepared as if this were a group formed and registered in New Zealand. In line with this approach the AMP Life Limited interest in the Branch and its consolidated entities has been disclosed as equity in these financial statements. The financial statements are prepared in this way to comply with Sections 8 and 9 of the New Zealand Financial Reporting Act 1993.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

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## 1. CORPORATE INFORMATION (CONTINUED)

### Reporting entity (continued)

AMP Life Limited is the registered issuer of life insurance policies in New Zealand. The liability under New Zealand policies is limited to the worldwide No.1 Statutory Fund. The No.1 Statutory Fund forms part of AMP Life Limited.

As the assets included and policies issued in the Branch are a component of the AMP Life Limited Worldwide No. 1 Statutory Fund, New Zealand life insurance policyholders should refer to the financial statements of AMP Life Limited Worldwide No. 1 Statutory Fund to gain an understanding of the financial affairs of that Fund.

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the current and prior year unless otherwise stated. Where necessary comparative information has been reclassified to be consistent with current period disclosures. The financial statements include separate financial statements for the Branch ('parent'), and for the consolidated entity, which consists of the parent and all entities controlled by the parent during the year and at balance sheet date ('consolidated').

### (a) Basis of preparation

These financial statements for the year ended 31 December 2011 were authorised by the Directors of AMP Life Limited on 7 May 2012. They have been prepared on a going concern basis and in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

The financial statements are also prepared in a manner consistent with the financial reporting requirements of:

- The New Zealand Life Insurance Act 1908
- The New Zealand Society of Actuaries Professional Standards
- The Australian Life Insurance Act 1995, and
- Prudential Standards issued by Australian Prudential Regulation Authority (APRA)

The Branch is predominantly a life insurance and wealth management business. Where permitted under accounting standards, the assets and liabilities associated with the life insurance and investment contracts are generally measured on a fair value basis and other assets and liabilities are generally measured on a historical cost basis.

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of the Branch are investment assets held to back investment contract and life insurance contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within twelve months of the reporting date are not always known, estimates have been provided in note 17(f) for the life statutory fund. Details of amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

### *Changes in accounting policies*

Since 1 January 2011, the Branch has adopted a number of International accounting standards and Interpretations which are mandatory for annual periods beginning on or after 1 January 2011. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the Branch. The most significant published standards that were implemented since 1 January 2011 are as follows:

- *NZ IAS 24 Related Party Disclosures.* This standard simplifies the definition of a related party and clarifies its intended meaning. This change has not resulted in any change to the transactions and balances which are required to be disclosed in the notes to the financial statements.
- *NZ IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction.* The standard requires the early payment of minimum funding requirements to be treated as a pension asset. This change has not resulted in any change to the transactions and balances which are required to be disclosed in the notes to the financial statements.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

#### *Published standards that are not yet effective*

A number of new Accounting standards have been issued but not yet effective during 2011. The Branch has not elected to early adopt any new standards or amendments in these financial statements. These accounting standards and amendments when applied to future periods, are not expected to have a material impact on the financial position or performance of the Branch. The most significant published standards that are not yet effective are as follows:

- *NZ IFRS 7 Financial instruments: Disclosure.* This standard makes changes to disclosure requirements relating to the transfer of financial assets.
- *NZ IFRS 9 Financial instruments: Classification and measurement.* This standard makes significant changes to the way that financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity.
- *NZ IFRS 9 Financial instruments: Recognition and Measurement.* This standard makes changes to the accounting for financial assets and financial liabilities.
- *NZ IFRS 10 Consolidated Financial Statements.* This standard introduces a new control model which may lead to more entities being consolidated.
- *NZ IFRS 12 Disclosure of Interests in Other Entities.* This standard requires summarised information about associates and subsidiaries with non-controlling interests.
- *NZ IFRS 13 Fair Value Measurement.* This standard defines "fair values" and sets out measurement and disclosure requirements.
- *NZ IAS 1 Presentation of Other Comprehensive Income.* This standard requires items to be grouped on basis of whether they are potentially reclassifiable to profit or loss in subsequent periods.
- *NZ IAS 19 Employee Benefits.* This standard revises the method of calculating the return on defined benefit plan assets.

### (b) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZIFRS') and other applicable Financial Reporting Standards as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

### (c) Principles of consolidation

These financial statements consolidate the financial information of controlled entities. Control is determined as the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. The financial information for subsidiaries is prepared for the same reporting period as the parent entity, using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to bring these into line.

The Branch conducts its life insurance business (see note 2(d) below) through Statutory Fund No. 1. Income, expenses, assets and liabilities attributable to policyholder activities within this life statutory fund are consolidated into the Branch financial statements, along with those attributable to the shareholders of the parent entity.

The life statutory fund comprises controlling interests in companies. Consolidation principles require the total amounts of each underlying asset, liability, income and expense of the controlled entities to be recognised in the consolidated financial statements.

The investment assets in controlled companies are held on behalf of policyholders and the statutory fund recognises a liability to the policyholders valued as described in Note 2(t) for Life insurance contract liabilities, and Note 2(s) for Investment contract liabilities. In certain cases, the amount of the net assets of the controlled entities recognised in the consolidated financial statements may not match the valuation of the relevant liability to the policyholder which results in certain policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

The share of the net assets of controlled companies attributable to non-controlling interests is disclosed separately in the Statement of financial position. In the Income statement, the net profit or loss of the Branch is allocated between profit or loss attributable to non-controlling interests and profit or loss attributable to shareholders of the parent entity.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Principles of consolidation (continued)

Controlled entities that are acquired are accounted for using the acquisition method of accounting. Information from the financial statements of controlled entities is included from the date the parent entity obtains control until such time as control ceases. Where the Branch ceases to control an entity, the consolidated financial statements includes the results for the part of the reporting period during which the parent entity had control. All inter-company balances and transactions are eliminated in full, including unrealised profits arising from intra-group transactions.

Certain controlled entities of the life statutory fund are operating companies which carry out business operations unrelated to the core wealth management operations of the Branch.

### (d) Accounting for wealth management and life insurance business

The accounting treatment of certain transactions in these financial statements varies depending on the nature of the contract underlying the transactions. The two major contract classifications relevant to the wealth management and insurance business of the Branch are investment contracts and life insurance contracts.

For the purpose of these financial statements holders of investment contracts or life insurance contracts are collectively and individually referred to as *policyholders*.

#### *Investment contracts*

All of this class of business relates to investment-linked policies. The nature of this business is that the Branch receives deposits from policyholders and those funds are invested on behalf of the policyholders. The resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities.

Under accounting standards such contracts are defined as *life investment contracts* and described as *investment contracts* throughout these financial statements.

#### *Life insurance contracts*

The Branch also issues contracts that transfer significant insurance risk from the policyholder covering death, disability or longevity of the insured. In addition, there are some policies that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholder is at the discretion of the Branch. These policies are referred to as *discretionary participating contracts*.

Under accounting standards such contracts are defined as *life insurance contracts*.

#### *Assets measurement basis*

Assets backing investment contract and life insurance contract liabilities are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards.

Life insurance contract liabilities are measured as described in note 2(t), and investment contract liabilities are measured at fair value, per note 2(s). Assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Income statement, to the extent permitted under accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described below.

All assets that back investment contract and life insurance contract liabilities are included within the Statutory Fund and, as such, are separately identifiable.

To ensure consistency across AMP Life and, except where specifically stated otherwise, all financial assets and all non-financial assets, including those not backing investment or insurance contract liabilities, are also recognised at fair value through profit or loss to the extent permitted under accounting standards. Similarly, adjustments to the value of such assets are recognised in the Statement of comprehensive income when the corresponding accounting standards allow such treatment. The accounting policy for the parent entity's investments in controlled entities is set out in Note 2(g).





# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are carried at fair value.

### (f) Receivables

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

### (g) Investments in financial assets

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

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

Subsequent to initial recognition, fair value of investments measured at fair value through profit or loss is determined as follows:

- The fair value of equity securities in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, a fair value is established by using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
- The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities are valued using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
- The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment scheme at the reporting date.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 2(q).

There is no reduction for realisation costs in determining the fair value of financial assets measured at fair value through profit or loss.

#### *Investments in controlled entities*

Investments by the Branch shareholders fund in controlled entities (excluding unit trusts) are measured at cost less any accumulated impairment losses. Investments in controlled entities by the Branch statutory funds that back investment contract and life insurance contract liabilities are treated as financial assets, these are valued in the same manner as equity securities described in this note.

#### *Investments in financial assets measured at amortised cost*

Investments in financial assets measured at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. These assets are subsequently recognised at amortised cost.

### (h) Associated entities

Associated entities are defined as those entities over which the Branch has significant influence but there is no capacity to control. Investments in associates, other than those backing investment contracts and life insurance contracts, are measured at cost less impairment plus the Branch's share of post acquisition profit or loss and reserves.

Equity investments in associated entities that back investment contract and life insurance contract liabilities are exempt from the requirement to apply equity accounting and have been designated on initial recognition as financial assets measured at fair value through profit or loss. These are valued in the same manner as equity securities described in Note 2(g).

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Plant and equipment

Plant and equipment is initially measured at cost, including transaction costs. It is subsequently measured at cost less any subsequent accumulated depreciation and accumulated impairment losses. The written down amount approximates fair value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Office fittings, furniture and equipment	3 – 13 years
Computer and communication equipment	2 – 4 years

#### *Derecognition*

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income statement.

#### (j) Intangible assets

##### *Goodwill*

When the aggregate of the fair value of the consideration transferred in a business combination, the recognised amount of any non-controlling interest in the fair value of any previously held equity interest in the acquire exceeds the fair value of the identifiable assets acquired and liabilities assumed, the excess is recognised as goodwill. Subsequently, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not subject to amortisation but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of assessing impairment of goodwill, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the assets, including goodwill, an impairment loss is recognised in the Income statement.

##### *Other intangibles*

Other intangible assets are initially measured at cost and are subsequently amortised over their estimated useful life of each asset.

Development expenditure on an internal project, primarily software, is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Software is amortised over its expected useful life, being a period not exceeding 5 years, commencing at the time the asset is first put into use or held ready for use (whichever is the earlier). Software is initially recognised at cost and subsequently measured at cost less accumulated amortisation and any impairment in value.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment losses are recognised in the Income statement.

#### (k) Other assets including inventories

Other assets mainly comprise of inventories, prepayments and other similar assets. Inventories are predominately finished goods, which are stated at the lower of cost (determined on a first in first out basis) and net realisable value. Cost includes the cost of direct material, direct labour and a proportion of overhead expenses incurred in putting the inventories in their present location and condition based on normal capacity.



## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(l) Impairment of assets**

Assets measured at fair value, where changes in value are reflected in the Income statement, are not subject to impairment testing. As a result, all financial assets and investment properties are not subject to impairment testing. Other assets such as property, plant and equipment, inventory, goodwill, intangibles and investments in associates accounted for using the equity method are subject to impairment testing.

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Any impairment loss, being the amount by which the carrying amount of an asset exceeds its recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

#### **(m) Taxes**

##### *Income tax expense*

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate and adjusted for changes in deferred tax assets and liabilities attributable to:

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

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

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

##### *Income tax for investment contracts and life insurance contracts business*

The income tax expense recognised in the Income statement arising in the Branch reflects tax imposed on shareholders as well as policyholders.

Investment contracts and life insurance contracts liabilities are established exclusive of the policyholders' share of any current tax payable and deferred tax balances of the Branch.

The policy liabilities (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract) and solvency reserves are determined at the reporting date in accordance with both the Australian and New Zealand Life Acts. Risk business policy liabilities for Life Act purposes is calculated on a before tax basis.

##### *Deferred tax*

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on those tax rates and tax laws which are enacted or substantially enacted at the reporting date.

In New Zealand, the tax regime recognises a deduction for acquisition expenses as they are incurred rather than over the life of the policy. This results in a difference in the tax and accounting recognition and creates a deferred tax liability.

The relevant tax rate is applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Taxes (continued)

##### *Deferred tax (continued)*

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

##### *Goods and services tax*

All income, expenses and assets are recognised net of any GST paid, except where they relate to products and services that are input taxed for GST purposes or where the GST incurred is not recoverable from the Inland Revenue Department. In such circumstances, the GST paid is recognised as part of the cost of acquisition of the assets or as part of the particular expense.

Receivables and payables are recorded with the amount of GST included. The net amount of GST recoverable from or payable to the Inland Revenue Department is included as either receivable or payable in the Statement of financial position.

Cash flows are reported on a gross basis reflecting any GST paid or collected. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the Inland Revenue Department are classified as operating cash flows.

#### (n) Payables

Payables that back investment contract and life insurance contract liabilities are financial liabilities and are measured at fair value. Other payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount approximates fair value.

#### (o) Provisions

Provisions are recognised when:

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

Where the Branch expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. For provisions other than employee entitlements, the discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in the Income statement.

If the effect of the time-value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate. This rate reflects the current market assessments of the time-value of money and, where appropriate, the risks specific to the liability.

##### *Employee entitlements*

Liabilities arising in respect of salaries and wages, annual leave and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities that have terms to maturity approximating the terms of the related liability.

##### *Restructuring*

A restructuring provision is only recognised when it is probable that future costs will be incurred in respect of a fundamental reorganisation or change in focus of the Company. A provision is recognised when the Company is demonstrably committed to the expenditure and a reliable estimate of the costs involved can be made. The provision is measured as the best estimate of the incremental, direct expenditures to be incurred as a result of the restructure and does not include costs associated with the ongoing activities of the Company.



## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(p) Borrowings**

All borrowings are financial liabilities and are initially recognised at fair value. Borrowings are subsequently measured at amortised cost and directly attributable transaction costs are expensed.

Where the borrowings of a controlled unit trust of the life statutory funds are measured at amortised cost for the purpose of determining the unit price of that trust, these borrowings are also measured at amortised cost in this Financial Report with any difference between the proceeds (net of transaction costs) and the redemption amount recognised in the Income statement over the period of the contract using the effective interest rate method. All other borrowings of the controlled entities are subsequently measured at fair value through profit or loss.

#### **(q) Derivatives and hedging**

The Branch is exposed to changes in interest and foreign exchange rates. To mitigate the risks arising from these exposures, the Branch uses derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts. Derivative financial instruments are also used to gain exposure to various markets for asset and liability management purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value at the end of each reporting period. All derivatives are recognised as assets when their fair value is positive, and as liabilities when their fair value is negative.

##### *Fair value estimation*

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting date. The quoted market price used is the current bid price; the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option-pricing models, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments.

#### **(r) Recognition and derecognition of financial assets and liabilities**

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

#### **(s) Investment contract liabilities**

Investment contracts consist of a financial instrument and an investment management services element, both of which are measured at fair value. The resulting liability to policyholders is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets, after tax, charged to the policyholders.

#### **(t) Life insurance contract liabilities**

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as Margin on Services (MoS).

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

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (t) Life insurance contract liabilities (continued)

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

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

#### *Allocation of operating profit and unvested policyholder benefits*

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the New Zealand Life Act.

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to shareholders is only allowed with the specific approval of the regulators.

Profit allocated to participating policyholders is recognised in the Income statement as an increase in policyholder liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested), and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested), are included within life insurance contract liabilities.

Bonus distributions to participating policyholders are merely a change in the nature of the liability from unvested to vested and, as such do not alter the amount of profit attributable to shareholders.

The principles of allocation of the profit arising from discretionary participating business determined under the New Zealand Life Act and MoS are as follows:

- (i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings, being 80:20.
- (ii) Other MoS profits arising from discretionary participating business are allocated 80% to policyholders and 20% to shareholders, except for the profit arising from corporate superannuation business, which is apportioned such that shareholders are allocated 15% of the profit allocated to policyholders.
- (iii) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in the life statutory fund (excluding retained earnings dealt with in (i) above) are allocated to shareholders.

#### *Allocation of expenses within the life statutory fund*

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

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard for the objective in incurring that expense and the outcome achieved. The apportionment basis has been made in accordance with Actuarial Standards and on an equitable basis to the different classes of business in accordance with both the Australian and New Zealand Life Acts.

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

Investment management expenses of the life statutory fund are classified as other operating expenses (see note 2(z)).



## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(u) Foreign currency transactions**

##### *Functional and presentation currency*

Both the functional and presentation currency of the Branch is New Zealand dollars (\$).

##### *Transactions and balances*

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Exchange variations are recorded in the Income statement.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### **(v) Insurance premium and related revenue**

##### *Life insurance contracts*

Life insurance contract premiums are separated into their revenue and deposit components. Premium amounts earned by bearing insurance risks are recognised as revenue. Other premium amounts received, which are in the nature of deposits, are recognised as an increase in life insurance contract liabilities.

Premiums with no due date or fixed amount are recognised on a cash-received basis. Premiums with a regular due date are recognised on an accruals basis. Unpaid premiums are only recognised during the days of grace or where secured by the surrender value of the life insurance contract and are reported as outstanding premiums and classified as receivables in the Statement of financial position.

##### *Investment contracts*

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

- (i) origination fees and ongoing investment management fees. See note 2(w).
- (ii) amounts credited directly to investment contract liabilities. See note 2(s).

#### **(w) Fee and other revenue**

Fees are charged to customers in connection with investment contracts and other financial services contracts. Revenue is recognised as services are provided. In some cases services are provided at the inception of the contract while other services are performed over the life of the contract.

Investment contracts consist of a financial instrument and an investment-management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on commission paid to financial planners for providing initial advice. The financial instrument is classified as an investment contract and is measured at fair value. See note 2(s).

The revenue that can be attributed to the origination service is recognised at inception. Any amounts paid to financial advisers is also recognised as an expense at that time. See note 2(z).

Fees for ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as income as the service is provided.

Fees charged for performing a significant act in relation to funds managed by the Branch are recognised as revenue when that act has been completed.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) Investment gains or losses

Dividend revenue is recognised in the Income statement when the Branch's right to receive the revenue is established.

Interest revenue is recognised as interest accrues using the effective interest method.

Realised and unrealised gains and losses include realised gains and losses being the change in value between the previously reported value and the amount received on sale of the asset and unrealised gains and losses being changes in the fair value of financial assets recognised in the period.

### (y) Insurance claims and related expense

#### *Life insurance contracts*

Life insurance contract claims are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the life insurance contract has been established or upon notification of the insured event, depending on the type of claim.

#### *Investment contracts*

There is no claims expense in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities (see note 2(s)).

### (z) Operating expenses

All operating expenses, other than those allocated to life insurance contracts (see note 2(t)), are expensed as incurred.

The majority of investment contracts issued result in payments to external service and advice providers. Where the amount paid equates to a fee charged to policyholders for the provision of advice, the amount is expensed either at inception or over the period of the contract consistent with the basis for recognising the fee revenue on the respective contracts (see note 2(w)).

Operating lease payments are recognised as an expense in the Income statement on a straight-line basis over the lease term or other systematic basis representative of the patterns of the benefits obtained.

### (aa) Finance costs

Interest expense is recognised within finance costs in the period incurred.

### (bb) Superannuation schemes

Certain controlled entities are participating employers in the AMP (New Zealand) Staff Superannuation Plan that provides benefits for employees and their dependants on resignation, retirement, disability or death of the employee. The Plan has both defined contribution and defined-benefit sections. The Plan is no longer open to new members.

For the defined contribution section, the Branch pays contributions to the Plan on a mandatory basis. The Branch has no further payment obligations once the contributions have been paid. The contributions are recognised in the Income statement as an operating expense when they fall due.

For the defined-benefit sections, the Branch recognises the net deficit or surplus position in the Statement of financial position. The deficit or surplus is measured as the difference between the fair value of the fund's assets and the discounted defined-benefit obligation of the fund, using a discount rate based on the interest rate of government securities which have a term to maturity approximating the term of the obligation. The defined-benefit obligation is calculated annually, with half-yearly reviews, by independent actuaries.





## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(bb) Superannuation schemes (continued)**

After taking into account any contributions paid into the defined-benefit sections during the period, movements in the net surplus or deficit, except actuarial gains and losses, are recognised in the Income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions over the period are recognised in full (net of tax), directly in other comprehensive income.

Contributions paid into defined-benefit sections are recognised as reductions in the deficit.

Contributions are also paid to other defined contribution schemes. The employer has no further payment obligations once the contributions have been paid and the contributions are recognised in the Income statement as an employment benefit expense when they fall due.

#### **(cc) Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements.

Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events. Significant accounting judgements, estimates and assumptions include but are not limited to:

#### **(a) Fair value of investments in financial assets**

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

Further detail on the determination of fair value of financial instruments is set out in note 18.

#### **(b) Goodwill**

Goodwill is required to be allocated to cash generating units and tested for impairment on an annual basis. Management apply judgement in determining cash generating units and allocating the goodwill arising from business combinations to these cash generating units. Impairment is assessed annually by determining the recoverable amount of each cash generating unit which has a goodwill balance. Management applies judgement in selecting valuation techniques and setting valuation assumptions to determine the recoverable amount. Note 12 sets out further information on the impairment testing of goodwill.

#### **(c) Tax**

The Branch is subject to taxes in New Zealand. The application of tax law to the specific circumstances and transactions of The Branch requires the exercise of judgement by management. The tax treatments adopted by management in preparing the financial statements may be impacted by changes in legislation and interpretations or be subject to challenge by tax authorities.

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

## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)**

#### **(d) Provisions**

A provision is recognised for items where The Branch has a present obligation arising from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is measured as the best estimate of the expenditure required to settle the present obligation. Management apply judgement in assessing whether a particular item satisfies the above criteria and in determining the best estimate. Note 14 sets out further information on provisions and Note 25 provides information of contingent liabilities.

#### **(e) Insurance contract liabilities**

The measurement of insurance contract liabilities is determined using the Margin on Services (MoS) methodology. The determination of the liability amounts involves judgement in selecting the valuation methods and profit carriers for each type of business and setting valuation assumptions. The determination is subjective and relatively small changes in assumptions may have a significant impact on the reported profit. The appointed actuary of The Branch is responsible for these judgements and assumptions. Further detail on the determination of insurance contract liabilities is set out in note 16.

#### **(f) Investment contract liabilities**

Investment contract liabilities are measured at fair value. For the majority of contracts, the fair value is determined based on published unit prices and do not generally require the exercise of judgement. For fixed income products, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions. Further details on investment contract liabilities are set out in Note 17.

### **4. SEGMENT INFORMATION**

The Branch is not required to present segment reporting under NZ IFRS 8.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 5. INCOME

		Consolidated		Parent	
		2011	2010	2011	2010
	Note	\$000	\$000	\$000	\$000
<b>(a) Life insurance premium and related revenue</b>					
Life insurance contract premium and related revenue	16(a)	212,263	209,006	212,263	209,006
<b>Total life insurance premium and related revenue</b>		<b>212,263</b>	<b>209,006</b>	<b>212,263</b>	<b>209,006</b>
<b>(b) Fee and other revenue</b>					
Investment management fees		3,857	3,053	3,026	3,053
Service fees <sup>1</sup>		80,722	79,933	-	-
Other revenue <sup>2</sup>		16,317	15,577	(25)	-
<b>Total fee and other revenue</b>		<b>100,896</b>	<b>98,563</b>	<b>3,001</b>	<b>3,053</b>
<b>(c) Investment gains and (losses)</b>					
Interest <sup>3</sup>					
- other entities		99,300	113,157	40,323	54,055
Dividends and distributions					
- subsidiaries		-	-	-	30,854
- associated entities		12,651	13,280	66	3,552
- other entities		7,789	10,360	218	541
Net realised and unrealised gains and losses <sup>4</sup>		150,454	86,383	226,913	159,421
Other investment income		3,051	6,631	(7)	(9)
<b>Total investment gains and (losses)</b>		<b>273,245</b>	<b>229,811</b>	<b>267,513</b>	<b>248,414</b>
<b>Investments in financial assets at fair value through profit or loss</b>					
Equity securities and listed managed investment schemes		(4,153)	443	38,092	115,744
Debt securities		63,323	53,286	1,034	752
Investments in unlisted investment schemes		(40,923)	37,288	558	(234)
Derivative financial assets		238,414	116,064	223,801	129,292
<b>Investments in financial assets at amortised cost</b>					
Debt securities		3,979	2,998	-	-
<b>Other investment gains</b>					
Bank and other		9,554	16,910	4,035	2,869
Miscellaneous income		3,051	2,822	(7)	(9)
<b>Total investment gains and (losses)</b>		<b>273,245</b>	<b>229,811</b>	<b>267,513</b>	<b>248,414</b>

<sup>1</sup> Fee revenues include fee income from trust and fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement plans, and other institutions.

<sup>2</sup> Other revenue includes trading revenue (other than that received through service fees) from business operations in which the Branch holds a controlling interest.

<sup>3</sup> Interest includes interest income from financial assets measured at fair value through profit or loss, designated as such upon initial recognition.

<sup>4</sup> Net realised and unrealised gains and losses include net gains and losses on financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 6. EXPENSES

	Note	Consolidated		Parent	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000
<b>(a) Life insurance claims and related expenses</b>					
Life insurance contract claims and related expenses	16(b)	214,019	199,389	214,019	199,389
<b>Total life insurance claims and related expenses</b>		<b>214,019</b>	<b>199,389</b>	<b>214,019</b>	<b>199,389</b>
<b>(b) Operating expenses</b>					
Commission expense		60,076	67,230	23,523	30,604
Investment management expenses		11,358	10,390	874	1,015
<b>Fee and commission expenses</b>		<b>71,434</b>	<b>77,620</b>	<b>24,397</b>	<b>31,619</b>
Wages and salaries		46,451	46,201	-	-
Superannuation costs – defined contribution scheme		2,170	1,800	-	-
Other expenses		500	385	-	-
<b>Staff and related expenses</b>		<b>49,121</b>	<b>48,386</b>	<b>-</b>	<b>-</b>
Service fee expense – related parties		8,056	8,918	48,590	71,276
Auditors remuneration – audit services (group entities)		455	524	264	326
Auditors remuneration – (other services)		348	202	272	-
Operating lease expenditure		2,747	2,706	-	-
Depreciation and amortisation		3,835	3,761	-	-
Impairment losses		23	-	21	-
IT and communication		24,085	8,064	4	5
IT consulting		8,944	7,470	185	6
Other expenses		24,754	25,318	2,439	1,546
<b>Other operating expenses</b>		<b>73,247</b>	<b>56,963</b>	<b>51,775</b>	<b>73,159</b>
<b>Total operating expenses</b>		<b>193,802</b>	<b>182,969</b>	<b>76,172</b>	<b>104,778</b>
<b>(c) Finance costs</b>					
Interest expense on borrowings		311	575	8	-
Other finance costs		285	405	285	410
<b>Total finance costs</b>		<b>596</b>	<b>980</b>	<b>293</b>	<b>410</b>

## 7. INCOME TAX

	Consolidated		Parent	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
<b>(a) Analysis of income tax expense</b>				
Current tax	24,797	45,696	25,338	39,616
(Decrease) / increase in deferred tax assets	(2,922)	7,815	-	5,783
Increase in deferred tax liabilities	87,353	2,701	87,353	2,701
Under / (over) provided in previous years:				
- current tax	(4,877)	994	(1,730)	2,579
- deferred tax	2,982	2,699	-	-
Other	55	(3,443)	78	(1,601)
<b>Income tax expense</b>	<b>107,388</b>	<b>56,462</b>	<b>111,039</b>	<b>49,078</b>



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 7. INCOME TAX (CONTINUED)

### (b) Relationship between income tax expense and accounting profit

The following provides a reconciliation of differences between prima facie tax calculated at 28% (2010: 30%) of the profit before income tax for the period and the actual income tax expense recognised in the Income statement for the period. The income tax expense reflects the impact of both income tax attributable to the shareholders as well as income tax attributable to policyholders.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against the policyholder liabilities. The rate applicable to New Zealand life insurance business during the period was 28% (2010: 30%).

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Profit before income tax per Income statement	207,989	132,852	222,295	134,706
Policyholder tax recognised as a change in policyholder liabilities in determining profit before income tax	(72,571)	(51,328)	(72,571)	(51,328)
<b>Profit before income tax excluding policyholder tax</b>	<b>135,418</b>	<b>81,524</b>	<b>149,724</b>	<b>83,378</b>
Prima facie tax at the rate of 28% (2010: 30%)	37,917	24,457	41,923	25,013
Tax effect of the differences between amounts of income and expenses recognised for accounting and the amounts deductible / taxable in calculating taxable income:				
Shareholder impact of par-business tax treatment	(37,322)	(18,954)	(37,322)	(18,954)
Non-taxable or deductible items	(583)	1,852	(565)	1,797
Investment revenue related items	5,434	(618)	5,434	(9,509)
Tax offsets and credits	(7)	(1,991)	16	(320)
Deferred tax on policy liabilities	30,799	10,957	30,799	10,957
Deferred tax writedown due to change in tax rate	-	(7,971)	-	(9,063)
Other items	474	(6,291)	(1,370)	(2,787)
Over provisions in previous years	(1,895)	3,693	(447)	616
Income tax expense / (credit) attributable to shareholders	34,817	5,134	38,468	(2,250)
Income tax expense attributable to policyholders	72,571	51,328	72,571	51,328
<b>Tax expense per Income statement</b>	<b>107,388</b>	<b>56,462</b>	<b>111,039</b>	<b>49,078</b>
<b>(c) Analysis of deferred tax asset</b>				
Accruals and provisions	9,803	9,116	-	-
Plant and equipment and capitalised costs	5,464	6,211	-	-
<b>Total deferred tax assets</b>	<b>15,267</b>	<b>15,327</b>	<b>-</b>	<b>-</b>
<b>(d) Analysis of deferred tax liability</b>				
Deferred acquisition cost within policy liabilities	157,806	127,007	157,806	127,007
Fair value adjustments on investments	31,339	(3,231)	31,339	(3,231)
Accruals and provisions	(72)	(66)	(72)	(66)
Portfolio Investment Entity allocated losses	26,103	4,113	26,103	4,113
<b>Total deferred tax liabilities</b>	<b>215,176</b>	<b>127,823</b>	<b>215,176</b>	<b>127,823</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 7. INCOME TAX (CONTINUED)

### (e) Unused tax losses and deductible temporary differences not recognised

There are no unused tax losses or deductible temporary differences not recognised (2010: nil) in either the Branch or the Parent.

### (f) Dividend withholding payment account

The Branch has elected to maintain a dividend withholding payment account.

	Consolidated and Parent	
	2011	2010
	\$000	\$000
Opening balance brought forward	6,615	6,615
Closing balance	6,615	6,615

### (g) Imputation credit account

Under the imputation system, the Branch may allocate or impute the tax it pays on its income attributable to its shareholder on the distributions it makes to its shareholder.

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Opening balance brought forward	283,391	169,189	241,948	137,300
Imputation credits attached to dividends received	4,289	4,768	4,289	5,224
Tax refunded	40,683	41,763	39,929	31,710
Tax paid to satisfy policyholder base liability	(36,188)	-	(36,188)	-
Transfer from policyholder credit account	-	67,714	-	67,714
Other	37	(43)	-	-
Closing balance	292,212	283,391	249,978	241,948

## 8. RECEIVABLES

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Reinsurers' share of life insurance contract liabilities	8,008	6,180	8,008	6,180
Reinsurance and other recoveries available	5,550	1,841	5,550	1,841
Investment income, sales proceeds and margins receivable	6,787	7,069	1,488	974
Life insurance contract premiums receivable	29,786	29,176	29,786	29,176
Other receivables				
- related entities	1	-	583	23
- other entities	32,169	30,421	6,008	5,460
Total receivables	82,301	74,687	51,423	43,654

All receivables (2010: \$68.2m) are expected to be realised within 12 months from the reporting date.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 9. INVESTMENT IN FINANCIAL ASSETS

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>Investments in financial assets measured at fair value through profit and loss</b>				
Equity securities and listed managed investment schemes	79,527	103,507	-	-
Debt securities	927,738	781,434	34,981	25,424
Investments in unlisted managed investment schemes	1,184,017	1,247,088	19,603	25,995
Derivative financial assets	218,501	129,929	147,970	76,502
<b>Total investment measured at fair value through profit and loss</b>	<b>2,409,783</b>	<b>2,261,958</b>	<b>202,554</b>	<b>127,921</b>
<b>Investments in controlled entities</b>				
Measured at fair value	-	-	1,328,149	1,292,556
Measured at cost	-	-	2,005	2,005
<b>Total investments in controlled entities</b>	<b>-</b>	<b>-</b>	<b>1,330,154</b>	<b>1,294,561</b>
<b>Investments in financial assets measured at amortised cost</b>				
Loans	54,734	57,980	-	-
Loans to controlled entities	-	-	1,071,510	1,071,816
<b>Total investments measured at amortised cost</b>	<b>54,734</b>	<b>57,980</b>	<b>1,071,510</b>	<b>1,071,816</b>
<b>Total investment in financial assets</b>	<b>2,464,517</b>	<b>2,319,938</b>	<b>2,604,218</b>	<b>2,494,298</b>

## 10. INVENTORIES AND OTHER ASSETS

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Inventories	13,231	10,814	-	-
Prepayments and other assets	1,541	1,389	42	32
<b>Total inventories and other assets</b>	<b>14,772</b>	<b>12,203</b>	<b>42</b>	<b>32</b>

(i) The inventory held by the consolidated Branch relates to inventory of an investment in a controlled entity involved in the agricultural and marine industries.

(ii) There has been no impairment of inventory during the reporting period (2010: \$nil)

(iii) All inventories and other assets are expected to be realised within 12 months from the reporting date.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 11. PLANT AND EQUIPMENT

31 December 2011	Office fittings, furniture and equipment \$000	Computer & communication equipment \$000	Total \$000
<b>Consolidated</b>			
<b>Plant and equipment</b>			
Gross carrying amount	17,088	9,237	26,325
Less: accumulated depreciation and impairment losses	(6,728)	(8,232)	(14,960)
<b>Plant and equipment at written down value</b>	<b>10,360</b>	<b>1,005</b>	<b>11,365</b>
<b>Movements in plant and equipment</b>			
Balance at the beginning of the year	11,369	801	12,170
Additions	1,181	950	2,131
Disposals	(531)	(4)	(535)
Depreciation expense for the year	(1,659)	(742)	(2,401)
<b>Balance at the end of the year</b>	<b>10,360</b>	<b>1,005</b>	<b>11,365</b>
<b>31 December 2010</b>	<b>Office fittings, furniture and equipment \$000</b>	<b>Computer &amp; communication equipment \$000</b>	<b>Total \$000</b>
<b>Consolidated</b>			
<b>Plant and equipment</b>			
Gross carrying amount	17,770	8,300	26,070
Less: accumulated depreciation and impairment losses	(6,401)	(7,499)	(13,900)
<b>Plant and equipment at written down value</b>	<b>11,369</b>	<b>801</b>	<b>12,170</b>
<b>Movements in plant and equipment</b>			
Balance at the beginning of the year	12,526	1,060	13,586
Additions	755	468	1,223
Disposals	(7)	-	(7)
Depreciation expense for the year	(2,045)	(611)	(2,656)
Transfer from intangible assets	140	(116)	24
<b>Balance at the end of the year</b>	<b>11,369</b>	<b>801</b>	<b>12,170</b>

There was no restriction on the title of any assets as at 31 December 2011 or 2010.





## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 12. INTANGIBLES

31 December 2011 Consolidated	Goodwill \$000	Other intangibles \$000	Total \$000
<b>Intangibles</b>			
Gross carrying amount	1,320	44,625	45,945
Less: accumulated amortisation and impairment losses	-	(26,897)	(26,897)
<b>Intangibles at written down value</b>	<b>1,320</b>	<b>17,728</b>	<b>19,048</b>
<b>Movements in intangibles</b>			
Balance at the beginning of the year	1,192	6,413	7,605
Additions	128	12,749	12,877
Amortisation expense for the year	-	(1,434)	(1,434)
<b>Balance at the end of the year</b>	<b>1,320</b>	<b>17,728</b>	<b>19,048</b>

31 December 2010 Consolidated	Goodwill \$000	Other intangibles \$000	Total \$000
<b>Intangibles</b>			
Gross carrying amount	1,192	31,876	33,068
Less: accumulated amortisation and impairment losses	-	(25,463)	(25,463)
<b>Intangibles at written down value</b>	<b>1,192</b>	<b>6,413</b>	<b>7,605</b>
<b>Movements in intangibles</b>			
Balance at the beginning of the year	1,192	6,905	8,097
Additions	-	636	636
Amortisation expense for the year	-	(1,104)	(1,104)
Transfer from intangible assets	-	(24)	(24)
<b>Balance at the end of the year</b>	<b>1,192</b>	<b>6,413</b>	<b>7,605</b>

#### Goodwill

Goodwill arose on acquisition of investment entities that carry out business operations unrelated to the core wealth management operations of the Branch. The goodwill relates to the cash generating unit comprising the operations of controlled entity Donaghy's Limited. The investment manager of the Branch, AMP Capital Limited, has confirmed that as at 31 December 2011 no impairment of goodwill was required.

#### Other intangibles

Indicators of impairment in the carrying value of intangible (excluding goodwill) assets attributed to AMP's retail savings and investment products AIS and KiwiSaver and mortgage broking franchise business Roost exist through a decrease in performance coupled with changes to KiwiSaver legislation and current market conditions.

In assessing the assets for impairment, they were allocated to cash generating units that were determined comprising the AIS and KiwiSaver products and Roost business. The recoverable amount of each cash-generating unit was determined as its value in use. In calculating the value in use a discount rate of 15% (2010: 15%) was used, and the assets (comprising software platforms and associated development costs) were attributed to the products on the basis of primary pattern of use – ie: number of funds, number of members etc. To the extent that the value in use was less than the value of the assets attributed to the cash-generating units, an impairment loss of \$ nil (2010: \$nil) has been recognised.

Certain assets previously categorised as Other Intangibles (e.g. fitout) were reclassified to Plant and Equipment in 2010 for more appropriate presentation.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 13. PAYABLES

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Life insurance policies in process of settlement	19,710	19,258	19,710	19,258
Other payables				
- subsidiaries and related entities	5,247	24,334	36,168	53,663
- reinsurers	5,710	2,495	5,710	2,495
- other entities	29,693	29,466	4,747	4,258
<b>Total payables</b>	<b>60,360</b>	<b>75,553</b>	<b>66,335</b>	<b>79,674</b>

\$2.0m (2010: \$nil) of total payables are non-current.

## 14. PROVISIONS

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>(a) Provisions</b>				
Employee entitlements	6,555	5,375	-	-
Loyalty bonuses	18,991	16,331	-	-
Rectification	4,365	4,749	-	-
Other	1,409	1,790	-	-
<b>Total provisions</b>	<b>31,320</b>	<b>28,245</b>	<b>-</b>	<b>-</b>

Consolidated	Employee entitlements	Loyalty bonuses	Rectification	Other	Total
	\$000	\$000	\$000	\$000	\$000
<b>(b) Movements in provision</b>					
Balance at the beginning of the year	5,375	16,331	4,749	1,790	28,245
Additional provisions made during the year	5,935	3,982	-	1,458	11,375
Provisions utilised during the year	(4,755)	(1,322)	(384)	(1,839)	(8,300)
<b>Balance at the end of the year</b>	<b>6,555</b>	<b>18,991</b>	<b>4,365</b>	<b>1,409</b>	<b>31,320</b>

### Loyalty Bonuses

For some financial products managed by the Branch, an amount is payable to customers primarily depending upon the length of time those customers have remained within the product. This loyalty bonus has been calculated based on best estimate assumptions about future customer behaviour. Some bonuses are payable at set dates, however others will not be paid until the customer exits a product. As such it is not always possible to estimate when liabilities will fall due. Where there are no set dates for repayment falling due within 12 months these liabilities are treated as a non current liability.

### Rectification Provision

This provision primarily relates to the expected costs associated with fulfilling and rectifying certain service level obligations to some Branch managed entities and entities where the Branch provides, or has provided administration services. The liabilities are based on an average of the cost of historical unit pricing errors that have been made. This is deemed to be management's best estimate and the provision is expected to crystallise by 31 December 2012.



## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 14. PROVISIONS (CONTINUED)

#### Other

This provision relates to restructuring costs, committed contract costs and onerous contracts. Costs associated with restructuring are recognised in a provision when there is an obligation to incur this expenditure (e.g. a restructuring plan has been drawn up and announced to employees pre year end). The committed contracts provision represents costs that have been committed to in respect to certain business projects for which the delivery is non cancellable. The liability is based on statement of work and approved project cost proposals obtained from respective project managers. The provision for onerous contracts relates to make good costs on a building vacated during 2011. It is expected that this provision will be utilised during 2012.

### 15. BORROWINGS

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>Borrowings</b>				
Bank loans	3,534	2,854	-	-
<b>Total payables</b>	<b>3,534</b>	<b>2,854</b>	<b>-</b>	<b>-</b>

The bank loans are repayable within one year and are secured by a charge over certain assets and undertakings of the controlled entity who is party to the borrowings.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS

	Consolidated and Parent	
	2011	2010
	\$000	\$000
<b>(a) Analysis of life insurance contract premium and related revenue</b>		
Total life insurance contract premiums received and receivable	221,180	219,286
Less: component recognised as change in life insurance contract liabilities	(18,724)	(17,971)
Life insurance contract premium revenue	202,456	201,315
Reinsurance recoveries	9,807	7,691
<b>Total life insurance contract premium and related revenue</b>	<b>212,263</b>	<b>209,006</b>
<b>(b) Analysis of life insurance contract claims and related expenses</b>		
Total life insurance contracts paid and payable	222,507	205,616
Less: component recognised as change in life insurance contract liabilities	(22,347)	(19,880)
Life insurance contract claims expense	200,160	185,736
Outwards reinsurance expense	13,859	13,653
<b>Total life insurance contract claims and related expense</b>	<b>214,019</b>	<b>199,389</b>
<b>(c) Analysis of life insurance operating expenses</b>		
Life insurance contract acquisition expenses		
- Commission	9,330	16,689
- Other	21,135	34,568
Life insurance contract maintenance expenses		
- Commission	13,990	13,646
- Other	29,867	38,024
Investment management expenses	4,234	3,808
<b>(d) Life insurance contract liabilities</b>		
<b>Life insurance contract liabilities determined using the projection method</b>		
Best estimate liability		
- Value of future life insurance contract benefits	2,290,445	1,933,761
- Value of future expenses	422,882	360,091
- Value of future premiums	(2,167,749)	(1,841,061)
Value of future profits		
- Life insurance contract holder bonuses	326,901	440,134
- Shareholder profit margins	360,307	364,151
<b>Total life insurance contract liabilities determined using the projection method</b>	<b>1,232,786</b>	<b>1,257,076</b>
<b>Life insurance contract liabilities determined using the accumulation method</b>		
Best estimate liability		
- Value of future life insurance contract benefits	124,456	123,748
<b>Total life insurance contract liabilities determined using the accumulation method</b>	<b>124,456</b>	<b>123,748</b>
Value of declared bonus	23,188	28,475
Unvested life insurance contract holder benefits <sup>(1)</sup>	429,974	434,438
<b>Total life insurance contract liabilities before reinsurance</b>	<b>1,810,404</b>	<b>1,843,736</b>
Add: reinsurers share of life insurance contract liabilities	8,008	6,180
<b>Total life insurance contract liabilities</b>	<b>1,818,412</b>	<b>1,849,916</b>

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



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated and Parent	
	2011	2010
	\$000	\$000
<b>(e) Reconciliation of changes in life insurance contract liabilities</b>		
Total life insurance contract liabilities at the beginning of the year	1,849,916	1,828,096
Change in life insurance contract liabilities recognised in the Income statement	(29,710)	12,483
Changes in reinsurers' share of life insurance contract liabilities	1,829	11,246
Premium recognised as an increase in life insurance contract liabilities	18,724	17,971
Claims recognised as a decrease in life insurance contract liabilities	(22,347)	(19,880)
<b>Total life insurance contract liabilities at the end of the year</b>	<b>1,818,412</b>	<b>1,849,916</b>

### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to note 2(t) for a description of MoS and the methods for calculating life insurance contract liabilities.

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

Business Type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment account	Modified accumulation	N/A
Risk (lump sum)	Projection / Accumulation	Expected premiums
Risk (income benefits)	Projection / Accumulation	Expected claims
Life annuities	Projection	Annuity payments

Key assumptions used in the calculation of life insurance contract liabilities are as follows:

#### (i) Risk free discount rates

Except where benefits are contractually linked to the performance of the assets held, a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations is used. The rates are determined as shown in the following table<sup>(1)</sup>:

Business Type	Basis	31 December 2011	31 December 2010
Retail risk (other than income protection open claims)	10 year government bond rate		
	Zero coupon government bond curve	2.5% - 4.1%	6.0%
Group and retail (income protection open claims)	10 year Government bond rate plus (in 2011) 30 bps	4.1%	6.0%
Life annuities (non-CPI)	Zero coupon interbank swap curve		
	Zero coupon Government bond curve + 40bps	2.8% - 4.8%	3.1% - 6.0%
Life annuities (CPI)	Government indexed bond curve + 20 bps for 2010 and + 40bps for 2011	1.3%	2.8%

<sup>(1)</sup> The basis of the risk free discount rates for Risk products has changed from a single bond rate to a bond curve during 2011 as part of the alignment of economic assumptions following the acquisition of AXA by AMP Limited.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS (CONTINUED)

### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

#### (ii) Participating business discount rates

Where benefits are contractually linked to the performance of the assets held, as is the case for participating business, a discount rate based on the expected market return on backing assets is used. The assumed earning rates for backing assets for participating business are largely driven by long-term zero coupon bond yields (2010: 10 year government bond yields). The zero coupon bond yields (2010: 10 year government bond yields) used at the relevant valuation dates are as shown below.

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

	10 Year Government Bonds	Local equities	International equities	Property	Fixed interest	Cash
31 December 2011	3.8%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2010	6.0%	4.5%	2.5%	2.0%	0.5%	(0.5%)

The risk premia for local equities includes allowance for imputation credits. The risk premia for fixed interest reflects credit ratings of the portfolio held.

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

	Equities	Property	Fixed interest	Cash
31 December 2011	40.0%	17.0%	37.0%	6.0%
31 December 2010	40.0%	17.0%	37.0%	6.0%

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

#### (iii) Future participating benefits

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

Actual bonus declarations are determined to reflect, over time, the investment returns of the particular fund and other factors in the emerging experience and management of the business. These factors include allowance for an appropriate degree of benefit smoothing, reasonable expectations of policyholders, equity between generations of policyholders applied across different classes and types of business, and ongoing solvency and capital adequacy.

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

Typical supportable bonus rates on major product lines are as follows (31 December 2010 in parentheses):

<b>Reversionary Bonus</b>	
Bonus on sum insured	0.3%-0.5% (0.8%-1.1%)
Bonus on existing bonuses	0.3%-0.5% (0.8%-1.1%)



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS (CONTINUED)

### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

#### (iii) Future participating benefits (continued)

##### Terminal Bonus

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

**Crediting Rates (investment account)** 2.4%-2.9% (3.5%-4.0%)

#### (iv) Future maintenance and investment expenses

Unit maintenance costs are based on budgeted expenses in the year following the balance date (including GST, as appropriate and excluding one-off expenses). For future years, these are increased for inflation as described in (v) below. These expenses include fees charged to the life statutory fund by the service company. Unit costs vary by product line and class of business based on an apportionment which is supported by expense analyses.

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

#### (v) Inflation and indexation

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

The assumptions for expense inflation have regard to these rates, recent expense performance, AMP's current plans and the terms of the relevant service company agreement, as appropriate.

The assumed annual inflation rate at 31 December 2011 was 2.5% for CPI and 3.0% for expenses (31 December 2010: 3.3% for CPI and 3.0% for expenses).

#### (vi) Basis of taxation

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

#### (vii) Voluntary discontinuance

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

Future rates of discontinuance used at 31 December 2011 were unchanged from those assumed at 31 December 2010.

Future rates of discontinuance for the major classes of life insurance contracts are assumed on average to be:

Business Type	31 December 2011	31 December 2010
Conventional	1.3 % - 2.5 %	1.3 % - 2.5 %
Term and crisis / disability	10.5 % - 12.0 %	10.5 % - 12.0 %

#### (viii) Surrender values

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



## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

#### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

##### (ix) Mortality and morbidity

Standard mortality tables, based on national or industry wide data, are used (e.g. IA95-97 and IM(F)L00). They are then adjusted by factors that take account of AMP's own experience, primarily over the past three years. For annuity business, adjustment is also made for mortality improvements prior to and after the valuation date.

Rates of mortality assumed at 31 December 2011 are unchanged from those assumed at 31 December 2010, except for:

- annuitant mortality - base mortality table (prior to amendment for some specific AMP experience) changed from IM80 / IF80 to IML00 / IFL00

Typical mortality assumptions in aggregate, are as follows:

Conventional	73% (M/F) IA95 – 97	(2010: 73% (M/F) IA95 – 97)
Term	63% (M/F) IA95 – 97	(2010: 63% (M/F) IA95 – 97)
Annuities	95% IML00* / 80% IFL00*	(2010: 72% IM80* / 61% IF80*)

For disability income business, the claim assumptions are currently based on IAD89-93, which is derived from Australian experience. It is adjusted for AMP's experience, with the adjustment dependent on age, sex, waiting period, occupation, smoking status and claim duration. Incidence rates and termination rates have both changed from those at 31 December 2010.

Typical morbidity assumptions in aggregate are as follows:

	Incidence rates - % of IA89-93	Termination rates(ultimate) - % of IA89-93
Income protection	60%	90%

For trauma cover, standard tables are not available and assumptions are mostly based on Australian population statistics, with adjustment for smoking status as well as AMP Life's recent claim experience. Assumptions at 31 December 2011 are unchanged from those used at 31 December 2010.

The actuarial tables used were:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.
IML00* / IFL00*	IML00 and IFL00 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999 to 2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IML00 * and IFL00* are these published tables amended for some specific AMP experience.
IM80* / IF80*	IM80 / IF80 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1979 to 1982. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IM80 * and IF80* are these published tables amended for some specific AMP experience.
IA89-93	A disability table developed by the Institute of Actuaries of Australia based on Australian disability experience from 1989 - 1993.





## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

#### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

##### (x) Impact of changes in assumptions

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

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2010 to 31 December 2011 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below:

Assumption change	Change in future profit margins (\$000)	Change in life insurance contract liabilities (\$000)	Change in shareholder profit and equity (\$000)
Non-market related changes to discount rates <sup>1)</sup>	(2,774)	(967)	967
Mortality and morbidity	(6,364)	(56)	56
Discontinuance rates	-	-	-
Maintenance expenses	1,448	83	(83)
Other assumptions <sup>2)</sup>	36,147	-	-

<sup>1)</sup> The change in future profit margins reflects impact of moving the risk discount rate from the 10 year government bond rate to zero coupon government bond curve as per note 16(f)(i).

<sup>2)</sup> Other assumptions changes include the impact of actual and planned premium rate changes.

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

#### (g) Insurance risk sensitivity analysis - life insurance contracts

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

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS (CONTINUED)

### (g) Insurance risk sensitivity analysis - life insurance contracts (continued)

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

Variable		Change in life insurance contract liabilities		Change in shareholder profit after income tax and equity	
		Gross of reinsurance (\$000)	Net of reinsurance (\$000)	Gross of reinsurance (\$000)	Net of reinsurance (\$000)
Mortality (including annuitant mortality)	10 % increase in mortality rates	(1,822)	(1,822)	1,822	1,822
Annuitant mortality	50 % increase in the rate of mortality improvement	719	719	(719)	(719)
Morbidity – lump sum disablement	20 % increase in lump sum disablement rates	-	-	-	-
Morbidity – disability income	10 % increase in incidence rates and 10 % decrease in recovery rates	191	73	(138)	(53)
Discontinuance rates	10 % increase in discontinuance rates	-	-	-	-
Maintenance expenses	10 % increase in maintenance expenses	84	84	(84)	(84)

### (h) Life insurance risk

The life insurance activities of the Branch involve a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders, often in conjunction with the provision of wealth-management products.

The design of products carrying insurance risk is managed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave the Branch open to claims from causes that were not anticipated. Product prices are set through a process of financial analysis, including review of previous AMP Life and industry experience and specific product design features. The variability inherent in insurance risk is managed by having a large portfolio of individual risks, underwriting and use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

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

The Branch reinsures (cedes) to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to:

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses

The specialist reinsurance companies are regulated by APRA or other relevant industry regulators and have strong credit ratings from A- to AA+.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS (CONTINUED)

### (h) Life insurance risk (continued)

#### Terms and conditions of life insurance contracts

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)</i>	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of the Branch. Premium rates for yearly renewable business are not guaranteed and may be changed at the Branch's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on death or maturity.	Operating profit arising from these contracts is generally allocated 80:20 between the policyholders and shareholder in accordance with both the Australian and New Zealand Life Acts. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as bonuses.	Market earning rates on assets backing the liabilities, interest rates, lapses, expenses, and mortality.
<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and shareholders in accordance with both the Australian and New Zealand Life Acts. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities, interest rates.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 16. LIFE INSURANCE CONTRACTS (CONTINUED)

### (i) Liquidity risk and future net cash outflows

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

	Up to 1 year \$000	1 to 5 years \$000	Over 5 years \$000	Total \$000
31 December 2011	20,000	36,000	512,000	568,000
31 December 2010	32,000	82,000	545,000	659,000

## 17. OTHER DISCLOSURES IN RESPECT OF LIFE INSURANCE AND INVESTMENT CONTRACTS

	Note	Consolidated and Parent 2011 \$000	2010 \$000
<b>(a) Analysis of life insurance and investment contract profit</b>			
Components of profit related to life insurance and investment contract liabilities:			
- Planned margins of revenues over expenses released		41,523	41,225
- Profits (losses) arising from difference between actual and assumed experience		48,547	601
- Capitalised (losses) reversals		941	913
<b>Profit related to life insurance and investment contract liabilities</b>		<b>91,011</b>	<b>42,739</b>
Attributable to:			
- Life insurance contracts		90,129	41,931
- Investment contracts		882	808
Investment earnings on assets in excess of life insurance and investment contract liabilities		20,245	17,566

### (b) Restrictions on assets

Investments held in the life statutory fund are only used within the relevant regulatory restrictions, which are imposed under both the Australian and New Zealand Life Acts and associated rules and regulations. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when solvency, capital adequacy and other regulatory requirements are met.

### (c) Capital guarantees

	Consolidated and Parent 2011 \$000	2010 \$000
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	1,498,174	1,501,139
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1,922	2,083

## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **17. OTHER DISCLOSURES IN RESPECT OF LIFE INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)**

#### **(d) Solvency and capital adequacy**

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These prudential reserving requirements are specified by the Australian Life Act and accompanying Actuarial Standards. The Branch holds additional amounts of reserves to provide a higher level of security for policyholder benefits than would be achieved by holding the statutory minimum.

Under the Australian Life Act, there are two requirements for each life statutory fund:

- The solvency requirement; and
- The capital adequacy requirement.

#### *Solvency requirements*

The solvency requirement is the absolute minimum that must be satisfied for the business to be allowed to continue to operate. Its purpose is to ensure, as far as practicable, that at any time the fund will be able to meet all existing life insurance contract liabilities, investment contract liabilities and other liabilities as they become due.

The Appointed Actuary of the Branch has confirmed that the available assets of the life statutory fund have exceeded the solvency reserve required at all times during the reporting period.

#### *Capital adequacy requirements*

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for the life entity to be allowed to make distributions to its shareholders and to operate without regulatory intervention. Its purpose is to ensure, as far as practicable, that there is sufficient capital in each life statutory fund for the continued conduct of the life insurance business, including writing new business, in a way which is in the interests of policyholders and in accordance with the Australian Life Act.

The Appointed Actuary of the Branch has confirmed that the available assets of the life statutory fund have exceeded the capital adequacy reserve required at all times during the reporting period. For this purpose, the capital adequacy reserve is defined as the solvency reserve, plus the difference between the capital adequacy requirement and the solvency requirement.

Distribution of retained profits, including shareholder's Life Act capital, is limited by prudential capital requirements of the Life Act, the detailed provisions of which are specified by actuarial standards. The solvency standard prescribes a minimum capital requirement, the solvency requirement, for each statutory fund of the company.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 17. OTHER DISCLOSURES IN RESPECT OF LIFE INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

### (d) Solvency and capital adequacy (continued)

The solvency requirements and ratios in respect of those requirements shown below and stated in Australian dollars are those calculated for the entire No 1 Statutory Fund.

		No 1 Statutory Fund	
		2011	2010
		AUD \$m	AUD \$m
<b>Solvency requirement</b>			
Net termination value <sup>(2)</sup>		19,260	18,342
Adjusted other liabilities		2,332	1,805
Solvency reserve	B	2,145	2,075
<b>Total solvency requirement <sup>(1)</sup></b>	<b>A</b>	<b>23,737</b>	<b>22,222</b>
<b>Assets available for solvency</b>			
Net assets		1,741	1,476
Liability for unvested policy owner benefits at the end of the year		1,267	1,376
Excess of net policy liabilities (including policy holder bonuses) over net minimum termination value		361	638
<b>ASSETS AVAILABLE FOR SOLVENCY</b>	<b>C</b>	<b>3,369</b>	<b>3,490</b>
Solvency reserve %	$(B/(A-B)) \times 100$	9.9%	10.3%
Coverage of solvency reserve	C/B	1.6	1.7
Excess assets over solvency reserve	$((C-B)/B) \times 100$	57.1%	68.2%

### (e) Actuarial information

Mr Rocco Mangano, as the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the Financial Report and in the tables in this note and Note 16.

The liabilities to policyholders (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract) and solvency reserves have been determined at the reporting date in accordance with the Australian and New Zealand Life Acts.

### (f) Amounts expected to be recovered or settled no more than 12 months after the reporting date

Based on assumptions as to likely withdrawal patterns in the various product groups, it is estimated that approximately \$232m of policy liabilities (2010: \$244m) may be settled within 12 months of the reporting date.

<sup>(1)</sup> The minimum level of assets required to be held in the Statutory Fund, Prescribed by the Solvency Standard referred to in Part 5 of Australia's Life Insurance Act 1995.

<sup>(2)</sup> In determining the solvency requirement the minimum termination value is the base figure upon which reserves against liability and asset risks are layered. With exceptions, the minimum termination values are determined in accordance with the Solvency Standard and represent the minimum obligation payable on termination of the policy as at the balance sheet date. For those conventional policies in New Zealand, where no minimum termination values apply under the Australian Standard, values have been calculated on similar lines as for comparable Australian policies.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 17. OTHER DISCLOSURES IN RESPECT OF LIFE INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

### (g) Disaggregated information

Under the Australian Life Act, the life insurance business of the Branch is conducted within a separate life statutory fund that is distinguished from the shareholders fund. Information for all major components of the financial statements disaggregated between the life statutory fund and the shareholders' fund is provided within this note.

### (i) Disaggregated Income statement

	Investment Linked 2011 \$000	Non Investment Linked 2011 \$000	Elimination 2011 \$000	Total Statutory Fund 2011 \$000	Shareholder Fund 2011 \$000	Total Parent 2011 \$000
<b>Income and expenses</b>						
Life insurance premium and related revenue	-	212,263	-	212,263	-	212,263
Fee and other revenue	3,026	(25)	-	3,001	-	3,001
Investment gains	672	266,841	-	267,513	-	267,513
Life insurance claims and related expenses	-	(214,019)	-	(214,019)	-	(214,019)
Operating expenses	(1,350)	(74,822)	-	(76,172)	-	(76,172)
Finance costs	(7)	(286)	-	(293)	-	(293)
Change in investment contract liabilities	292	-	-	292	-	292
Change in life insurance contract liabilities	-	29,710	-	29,710	-	29,710
<b>Profit before income tax</b>	<b>2,633</b>	<b>219,662</b>	<b>-</b>	<b>222,295</b>	<b>-</b>	<b>222,295</b>
Income tax expense	(1,751)	(109,288)	-	(111,039)	-	(111,039)
<b>Net profit for the year after income tax</b>	<b>882</b>	<b>110,374</b>	<b>-</b>	<b>111,256</b>	<b>-</b>	<b>111,256</b>

	Investment Linked 2010 \$000	Non Investment Linked 2010 \$000	Elimination 2010 \$000	Total Statutory Fund 2010 \$000	Shareholder Fund 2010 \$000	Total Parent 2010 \$000
<b>Income and expenses</b>						
Life insurance premium and related revenue	-	209,006	-	209,006	-	209,006
Fee and other revenue	3,053	-	-	3,053	-	3,053
Investment gains / (losses)	8,771	214,319	-	223,090	25,324	248,414
Life insurance claims and related expenses	-	(199,389)	-	(199,389)	-	(199,389)
Operating expenses	(1,284)	(103,494)	-	(104,778)	-	(104,778)
Finance costs	-	(410)	-	(410)	-	(410)
Change in investment contract liabilities	(8,707)	-	-	(8,707)	-	(8,707)
Change in life insurance contract liabilities	-	(12,483)	-	(12,483)	-	(12,483)
<b>Profit before income tax</b>	<b>1,833</b>	<b>107,549</b>	<b>-</b>	<b>109,382</b>	<b>25,324</b>	<b>134,706</b>
Income tax expense	(1,025)	(48,053)	-	(49,078)	-	(49,078)
<b>Net profit for the year after income tax</b>	<b>808</b>	<b>59,496</b>	<b>-</b>	<b>60,304</b>	<b>25,324</b>	<b>85,628</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 17. OTHER DISCLOSURES IN RESPECT OF LIFE INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

### (g) Disaggregated information (continued)

#### (ii) Disaggregated Statement of financial position

	Investment Linked 2011 \$000	Non Investment Linked 2011 \$000	Elimination 2011 \$000	Total Statutory Fund 2011 \$000	Shareholder Fund 2011 \$000	Total Parent 2011 \$000
<b>Assets</b>						
Investments in financial assets	197,327	2,435,073	(30,187)	2,602,213	2,005	2,604,218
Other assets	(107,015)	160,849	28,419	82,253	(5)	82,248
<b>Total assets</b>	<b>90,312</b>	<b>2,595,922</b>	<b>(1,768)</b>	<b>2,684,466</b>	<b>2,000</b>	<b>2,686,466</b>
<b>Liabilities</b>						
Life insurance contract liabilities	-	1,818,412	-	1,818,412	-	1,818,412
Investment contract liabilities	113,324	-	-	113,324	-	113,324
Other liabilities	(23,894)	307,570	(1,768)	281,908	-	281,908
<b>Total liabilities</b>	<b>89,430</b>	<b>2,125,982</b>	<b>(1,768)</b>	<b>2,213,644</b>	<b>-</b>	<b>2,213,644</b>
<b>Net assets</b>	<b>882</b>	<b>469,940</b>	<b>-</b>	<b>470,822</b>	<b>2,000</b>	<b>472,822</b>
<b>Equity</b>						
Retained earnings	882	469,940	-	470,822	2,000	472,822
<b>Total equity</b>	<b>882</b>	<b>469,940</b>	<b>-</b>	<b>470,822</b>	<b>2,000</b>	<b>472,822</b>

	Investment Linked 2010 \$000	Non Investment Linked 2010 \$000	Elimination 2010 \$000	Total Statutory Fund 2010 \$000	Shareholder Fund 2010 \$000	Total Parent 2010 \$000
<b>Assets</b>						
Investments in financial assets	195,308	2,321,186	(24,201)	2,492,293	2,005	2,494,298
Other assets	(92,851)	163,921	10,221	81,291	(5)	81,286
<b>Total assets</b>	<b>102,457</b>	<b>2,485,107</b>	<b>(13,980)</b>	<b>2,573,584</b>	<b>2,000</b>	<b>2,575,584</b>
<b>Liabilities</b>						
Life insurance contract liabilities	-	1,849,916	-	1,849,916	-	1,849,916
Investment contract liabilities	128,364	-	-	128,364	-	128,364
Other liabilities	(25,907)	275,625	(13,980)	235,738	-	235,738
<b>Total liabilities</b>	<b>102,457</b>	<b>2,125,541</b>	<b>(13,980)</b>	<b>2,214,018</b>	<b>-</b>	<b>2,214,018</b>
<b>Net assets</b>	<b>-</b>	<b>359,566</b>	<b>-</b>	<b>359,566</b>	<b>2,000</b>	<b>361,566</b>
<b>Equity</b>						
Retained earnings	-	359,566	-	359,566	2,000	361,566
<b>Total equity</b>	<b>-</b>	<b>359,566</b>	<b>-</b>	<b>359,566</b>	<b>2,000</b>	<b>361,566</b>



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 17. OTHER DISCLOSURES IN RESPECT OF LIFE INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

### (g) Disaggregated information (continued)

#### (iii) Disaggregated movement in retained earnings

	Investment Linked 2011 \$000	Non Investment Linked 2011 \$000	Total Statutory Fund 2011 \$000	Shareholder Fund 2011 \$000	Total Parent 2011 \$000
Opening retained earnings	-	359,566	359,566	2,000	361,566
Net profit for the year after income tax	882	110,374	111,256	-	111,256
Closing retained earnings	882	469,940	470,822	2,000	472,822

	Investment Linked 2010 \$000	Non Investment Linked 2010 \$000	Total Statutory Fund 2010 \$000	Shareholder Fund 2010 \$000	Total Parent 2010 \$000
Opening retained earnings	-	323,744	323,744	6,677	330,421
Net profit for the year after income tax	808	59,496	60,304	25,324	85,628
Dividends paid to Australian shareholders' fund	-	-	-	(30,001)	(30,001)
Transfers to parent branch	-	(24,482)	(24,482)	-	(24,482)
Transfers within statutory fund	(808)	808	-	-	-
Closing retained earnings	-	359,566	359,566	2,000	361,566

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

The Branch's risk management is carried out in accordance with the policies set by the AMP Limited Board for management of the risks within the AMP group.

The principal objective of AMP Group Financial Risk Management (FRM) framework is to ensure the existence of a robust structure for identifying, assessing, measuring, managing and escalating risks. The FRM Framework operates under the AMP Group risk appetite statement that includes consideration of risk to capital and risk to earnings.

FRM in the AMP Group is managed in accordance with policies set by the AMP Limited Board (the Board). These policies are set out in the FRM Framework and this provides a structure for managing financial risks including delegations, escalations and reporting. The FRM Framework also outlines AMP Group's FRM objectives and identifies organisational responsibilities for the implementation of the FRM Framework. In addition, the FRM Framework provides an overview of each of the key financial risks including the nature of the risks, objectives in seeking to manage the risks, the key policy variables for the management of the risks and the business unit responsibility for managing and reporting the risks.

The Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and that it is operating effectively. This includes approval of the FRM Framework and its sub-policies, the shareholder capital investment strategy, capital and financing plans, approval of transactions outside the FRM Framework and setting the financial risk appetite. The AMP Limited Audit Committee (AMP AC) ensures the existence of effective FRM policies and procedures, and oversight of the execution of the FRM Framework. The AMP Life Audit Committee are delegated this responsibility for the elements specific to their respective businesses.

Executive Committees oversee the management and monitoring of financial risks and capital management. These Committees include Group Asset and Liability Committee (Group ALCO) and NZ ALCO for the Branch. The Debt Committee, a sub-committee of Group ALCO, also reviews and monitors debt financing risk across the AMP Group. These Executive Committees report to the respective Audit Committees and Boards.



## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

AMP Group Treasury (Group Treasury) is responsible for the execution of the FRM Framework and capital and financing plans in compliance with Board approved targets and limits. Group Treasury is also responsible for the execution of the approved investment strategy for AMP shareholder capital, for analysis and reporting of financial risks and capital position to Group ALCO, AMP AC and the Board, and monitoring compliance with the FRM Framework in relation to FRM and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the Board.

Internal Audit checks for compliance with the FRM Framework as part of its ongoing audit cycle. Internal Audit is required to review the effectiveness of the FRM Framework and report ultimately to the AMP AC.

The directors and boards of the Branch are required to comply with the Board approved risk appetite. The Branch's controlled operating entities are also responsible for approving policyholder asset and liability strategy, allocating subsidiary shareholder capital investment and for reporting to the AMP Life AC and NZ ALCO on financial risks.

The Appointed Actuary is responsible for reporting to AMP Life Board, AMP Life AC, NZ ALCO as well as externally to APRA on the financial condition of the Branch including solvency, capital adequacy and target surplus. The Appointed Actuary is also responsible for giving advice to the Branch on distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. The Australian Life Insurance Act (Life Act) also imposes obligations on an Appointed Actuary to bring to the attention of the Branch, or in some circumstances, APRA, any matter that the Appointed Actuary believes requires action to avoid prejudice to the interests of policyholders.

Information about the Branch's capital management activities, including the relationship with regulatory requirements on regulated entities, within the AMP Group is provided in Note 19.

#### (a) Risks and mitigation

For the purposes of the FRM Framework, risk management involves decisions made about the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes.

Financial risk in the Branch is managed by reference to the probability of loss relative to expected income over a one-year time horizon at a 90 per cent confidence level (Profit at risk). In respect of investments held in the shareholder fund and in the life statutory fund, the loss tolerance over the discretionary investments is set at a low level because the Branch has equity market exposure in its businesses (for example through fees on Assets Under Management).

Financial risks arising in the Branch include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the FRM Framework including through the use of derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to movements in the financial markets. These movements include foreign exchange rates, interest rates, credit spreads, equity prices or property prices. Market risk in the Branch arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, interest bearing investments and corporate debt.

## **AMP Life Limited (New Zealand Branch)**

Notes to the Financial Statements for the year ended 31 December 2011

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### **18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

#### **(b) Market risk sensitivity analysis**

The paragraphs below include sensitivity analysis tables showing how the profit after tax and equity would have been impacted by changes in market risk variables including interest rate risk and currency risk as defined in NZ IFRS 7 'Financial Instruments: Disclosures'. They show the direct impact on the profit after tax or equity of a reasonably possible change in factors which affect the carrying value of financial assets and financial liabilities held at the end of the reporting period.

The sensitivity is required to show the impact of a reasonably possible change in market rate. It is not intended to illustrate a remote, worst case, stress test scenario nor does it represent a forecast. In addition it does not include the impact of any mitigating management actions over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

#### **(i) Interest rate risk**

Interest rate risk is the risk of an impact on the Branch's profit after tax and equity from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates.

Interest rate risk arises from interest bearing financial assets and financial liabilities held by the Branch. Management of these risks is decentralised according to the activity.

As discussed in Note 2(c), the Branch conducts its life insurance business through a separate life statutory fund. Investment assets of the life statutory fund including interest-bearing financial assets are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital.

Interest rate risk of the Branch which impacts shareholders arises in respect of financial assets and liabilities held in the life statutory fund. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the life statutory fund to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (investment-linked business), there is no residual interest rate exposure which would impact shareholders.

Management of various risks associated with investments undertaken by the life statutory fund, such as interest rate risk is subject to the relevant regulatory requirements governed by the Life Act. The Branch is required to satisfy solvency requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities.

The Branch manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to policyholder expectations and risks to the Branch Board's target surplus philosophy for both capital adequacy and solvency as advised by the Appointed Actuary.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (b) Market risk sensitivity analysis (continued)

#### (i) Interest rate risk (continued)

##### *Interest rate risk sensitivity analysis*

This analysis demonstrates the impact of a 100 basis points change in New Zealand and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that would qualify as cash flow hedges for hedge accounting. A sensitivity level of 100 basis points is determined considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in the Branch.

	2011		2010	
	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000
<b>Change in variables</b>				
+ 100 basis points	(9,182)	(9,182)	(7,389)	(7,389)
- 100 basis points	11,969	11,969	9,105	9,105

#### (ii) Currency risk

Currency risk is the risk of an impact on the Branch's profit after tax from movements in foreign exchange rates. Changes in value would occur in respect of translating the Branch's capital in overseas investments into New Zealand dollars at reporting date (translation risk) or from foreign exchange rate movements on specific cash flow transactions (transaction risk).

Other than where the impact would be immaterial, expected foreign currency receipts and payments may be hedged once the value and timing of the expected cash flow is known.

The Branch does not hedge the capital invested in overseas investments thereby accepting the foreign currency translation risk on invested capital.

##### *Currency risk sensitivity analysis*

The analysis demonstrates the impact of a 10 per cent movement of currency rates against the New Zealand dollar with all other variables held constant, on the profit after tax and equity due to changes in fair value of currency sensitive monetary assets and liabilities at the reporting date.

It is assumed that the 10 per cent change occurs as at the reporting date. A sensitivity level of 10% is determined considering the range in currency exposures of the Branch.

	2011		2010	
	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000
<b>Change in variables</b>				
10 % depreciation of NZD	1,765	1,765	4,232	4,232
10 % appreciation of NZD	(1,775)	(1,775)	(4,239)	(4,239)

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

#### (b) Market risk sensitivity analysis (continued)

##### (iii) Equity price risk

Equity price risk is the risk of an impact on the Branch's profit after tax and equity from movements in equity prices. AMP Life measures equity securities at fair value through profit or loss.

##### *Equity price sensitivity analysis*

The analysis demonstrates the impact of a 10 per cent movement in New Zealand and international equities held at reporting date. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments. Any potential indirect impact on fees from the Branch's investment linked business is not included. A sensitivity level of 10 per cent is determined considering the widely spread portfolios held by the Branch and the range of movements in equity markets for the periods.

Change in variables	2011		2010	
	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000
10 % increase in New Zealand equities	1,254	1,254	2,878	2,878
10 % increase in international equities	2,015	2,015	4,232	4,232
10 % decrease in New Zealand equities	(1,260)	(1,260)	(2,881)	(2,881)
10 % decrease in international equities	(2,024)	(2,024)	(4,239)	(4,239)

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

#### (c) Liquidity and refinancing risk

Liquidity risk is the risk that the Branch is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk, a subset of liquidity risk, is the risk that the maturity profile of existing debt is such that it would be difficult to refinance (or rollover) maturing debt, or there is excessive exposure to potentially unfavourable market conditions at any given time.

To ensure that the Branch has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, Group Treasury maintains a defined surplus of cash plus six months of debt maturities to mitigate refinancing risk, satisfy regulatory requirements and protect against liquidity shocks in accordance with the liquidity risk management policy approved by the AMP Life Limited Board.

In the current year no breaches of banking covenants have occurred (2010: nil). The carrying amount of the borrowings at 31 December 2011 was \$3.5m (\$2010: \$2.8m) - refer Note 15. The financiers of the borrowings do not have recourse to the Branch.

The following table summarises the maturity profiles of the Branch's undiscounted financial liabilities and off-balance sheet items at the reporting date. The maturity profiles are based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (c) Liquidity and refinancing risk (continued)

Maturity profiles of undiscounted financial liabilities<sup>(1)</sup>

2011 - Consolidated	Up to 1 year or no term \$000	1 to 5 years \$000	More than 5 years \$000	Other <sup>2)</sup> \$000	Total \$000
Payables	58,076	232	-	2,052	60,360
Borrowings	3,534	-	-	-	3,534
Other financial liabilities	1,926	8,105	3,597	-	13,628
Investment contract liabilities <sup>(2)</sup>	-	-	-	113,324	113,324
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>63,536</b>	<b>8,337</b>	<b>3,597</b>	<b>115,376</b>	<b>190,846</b>
2010 - Consolidated	Up to 1 year or no term \$000	1 to 5 years \$000	More than 5 years \$000	Other \$000	Total \$000
Payables	73,571	280	1	1,701	75,553
Borrowings	2,854	-	-	-	2,854
Other financial liabilities	25,160	-	-	-	25,160
Investment contract liabilities	-	-	-	128,364	128,364
<b>Total undiscounted financial liabilities</b>	<b>101,585</b>	<b>280</b>	<b>1</b>	<b>130,065</b>	<b>231,931</b>
2011 - Parent	Up to 1 year or no term \$000	1 to 5 years \$000	More than 5 years \$000	Other <sup>2)</sup> \$000	Total \$000
Payables	64,440	18	-	1,877	66,335
Other financial liabilities	-	-	397	-	397
Investment contract liabilities <sup>(2)</sup>	-	-	-	113,324	113,324
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>64,440</b>	<b>18</b>	<b>397</b>	<b>115,201</b>	<b>180,056</b>
2010 - Parent	Up to 1 year or no term \$000	1 to 5 years \$000	More than 5 years \$000	Other \$000	Total \$000
Payables	79,674	-	-	-	79,674
Other financial liabilities	16,324	-	-	-	16,324
Investment contract liabilities	-	-	-	128,364	128,364
<b>Total undiscounted financial liabilities</b>	<b>95,998</b>	<b>-</b>	<b>-</b>	<b>128,364</b>	<b>224,362</b>

<sup>1)</sup> The table provides maturity analysis of the Branch's financial liabilities and non-linked investment contracts including term annuities.

<sup>2)</sup> Investment contract liabilities of \$113.3m (2010: \$128.4m) are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all those policyholders claimed their funds, there may be some delays in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk.

<sup>3)</sup> Estimated net cash out flow profile of life insurance contract liabilities is disclosed in Note 16(i).

### (d) Credit risk

Credit risk includes both settlement credit exposures and traded credit exposures. Credit default risk is the risk of an adverse impact on results and asset values relative to expectations due to a counterparty failing to meet their contractual commitments in full and on time (obligator's non-payment of a debt). Traded credit risk is the risk of an adverse impact on results and asset values relative to expectations due to changes in value of a traded financial instrument as a result of changes in credit risk on that instrument.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (d) Credit risk (continued)

The AMP Concentration Risk Policy sets out the assessment and determination of what constitutes credit risk. The policy has set exposure limits for each counterparty and credit rating. Compliance with this policy is monitored and exposures and breaches are reported to senior management and NZALCO.

Credit risk on the invested fixed income portfolios in the statutory fund is managed through an Investment Management Agreement (IMA) with AMP Capital Investors (New Zealand) Limited who are responsible for managing the investment assets of the Branch in accordance with an approved Risk Management Statement. The IMA is updated as required and sets out the assessment and determination of what constitutes credit risk for the Branch and has set exposure limits (or benchmarks) for each counter party, allowable credit ratings for fixed interest investments and benchmark asset allocations by investment sector. Compliance with the IMA is monitored through the NZ ALCO.

### (i) Management of credit risk concentration

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counter party or where a number of counter parties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk is managed through both aggregate credit rating limits and individual counter party limits, which are determined predominantly on the basis of the counter party's credit rating.

At reporting date, there is no specific concentration of credit risk with a single counter party arising from the use of financial instruments, other than the normal clearing-house exposures associated with dealings through recognised exchanges.

The counter parties to non-exchange traded contracts, at the time of entering those contracts, are limited to companies with investment grade credit (BBB- or greater). The credit risks associated with these counter parties are assessed under the same management policies as applied to direct investments in the Branch's portfolio.

Compliance is monitored and exposures and breaches reported to senior management and NZ ALCO.

### (ii) Exposure to credit risk

The Branch's maximum exposure to credit risk on recognised financial assets, without taking account of any collateral or other credit enhancements as at the reporting date was \$1,188.4m (2010: \$967.8m). This amount includes (i) financial assets of investment linked business in the Branch where the liability to policyholders is linked to the performance and value of the assets that back those liabilities and consequently there is no exposure to shareholders, and (ii) other items arising in the course of operations which are managed by the respective business units.

The exposures on the interest bearing securities and cash equivalents which impact the Branch's capital position are managed by NZ ALCO within limits set by the AMP Life Concentration Risk Policy. The following table provides information regarding the credit risk exposures for those items according to the credit rating of the counter parties.

	2011 \$000	2010 \$000
AAA	47,420	186,455
AA	942,762	532,386
A	211,870	295,958
BBB	117,750	110,556
Below BBB	6,329	10,754
Unrated	1	798
Total financial assets with credit risk exposure managed by AMP Group		
Treasury <sup>(1)</sup>	1,326,122	1,136,907
Other assets <sup>(2)</sup>	1,432,446	1,512,937
Total assets	2,758,568	2,649,844

<sup>(1)</sup> Balance mainly comprises interest bearing securities and cash equivalents

<sup>(2)</sup> Balance includes all other financial and non financial assets with no credit risk exposure



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (d) Credit risk (continued)

#### (iii) Past due but not impaired financial assets of the Branch

The following table provides an aging analysis of financial assets that are past due as at reporting date but not impaired:

2011 - Consolidated	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Other receivables – other entities	861	261	102	1,151	2,375
<b>Total <sup>(1)</sup></b>	<b>861</b>	<b>261</b>	<b>102</b>	<b>1,151</b>	<b>2,375</b>

2010 - Consolidated	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Other receivables – other entities	1,525	507	50	1,436	3,518
<b>Total <sup>(1)</sup></b>	<b>1,525</b>	<b>507</b>	<b>50</b>	<b>1,436</b>	<b>3,518</b>

2011 - Parent	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Other receivables – other entities	352	291	-	11	654
<b>Total <sup>(1)</sup></b>	<b>352</b>	<b>291</b>	<b>-</b>	<b>11</b>	<b>654</b>

2010 - Parent	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Other receivables – other entities	978	233	-	630	1,841
<b>Total <sup>(1)</sup></b>	<b>978</b>	<b>233</b>	<b>-</b>	<b>630</b>	<b>1,841</b>

<sup>(1)</sup> For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Therefore, the tables above do not show any past due financial assets that back investment linked business.

### (e) Derivative financial instruments

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

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

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

The market risk of derivatives is managed and controlled as an integral part of the financial risk of the Branch. The credit risk of derivatives is also managed in the context of the Branch's overall credit risk policies.





# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (f) Fair value measures

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

**Level 1:** Valued by reference to quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arms length basis.

**Level 2:** Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals, currency rates, option volatilities, credit risks, and default rates.

**Level 3:** Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable inputs are determined based on the best information available, which might include the Branch's own data, reflecting the Branch's own estimates about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available, and include estimates about the timing of cash flows, discount rates, earnings multiples and other inputs.

The following table shows an analysis of financial instruments measured at fair value by level of the fair value hierarchy:

2011 - Consolidated	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total fair value \$000
<b>Assets</b>				
Equity securities and listed managed investment schemes	10,263	67,657	1,607	79,527
Debt securities	-	922,427	5,311	927,738
Investment in unlisted managed investment schemes	-	1,181,141	2,876	1,184,017
Derivative financial assets	32,482	186,019	-	218,501
<b>Total financial assets</b>	<b>42,745</b>	<b>2,357,244</b>	<b>9,794</b>	<b>2,409,783</b>
<b>Liabilities</b>				
Derivative financial liabilities	1,661	11,967	-	13,628
Investment contract liabilities	-	12,298	101,026	113,324
<b>Total financial liabilities</b>	<b>1,661</b>	<b>24,265</b>	<b>101,026</b>	<b>126,952</b>
<b>2010 - Consolidated</b>	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Level 3 \$000</b>	<b>Total fair value \$000</b>
<b>Assets</b>				
Equity securities and listed managed investment schemes	12,672	88,497	2,338	103,507
Debt securities	-	781,434	-	781,434
Investment in unlisted managed investment schemes	-	1,235,077	12,011	1,247,088
Derivative financial assets	36,778	93,151	-	129,929
<b>Total financial assets</b>	<b>49,450</b>	<b>2,198,159</b>	<b>14,349</b>	<b>2,261,958</b>
<b>Liabilities</b>				
Derivative financial liabilities	1,768	23,392	-	25,160
Investment contract liabilities	-	14,603	113,761	128,364
<b>Total financial liabilities</b>	<b>1,768</b>	<b>37,995</b>	<b>113,761</b>	<b>153,524</b>



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (f) Fair value measures (continued)

2011 - Parent	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total fair value \$000
<b>Assets</b>				
Equity securities and listed managed investment schemes	-	1,328,149	-	1,328,149
Debt securities	-	34,981	-	34,981
Investment in unlisted managed investment schemes	-	16,727	2,876	19,603
Derivative financial assets	-	147,970	-	147,970
<b>Total financial assets</b>	-	1,527,827	2,876	1,530,703
<b>Liabilities</b>				
Derivative financial liabilities	-	397	-	397
Investment contract liabilities	-	12,298	101,026	113,324
<b>Total financial liabilities</b>	-	12,695	101,026	113,721

2010 - Parent	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total fair value \$000
<b>Assets</b>				
Equity securities and listed managed investment schemes	-	1,292,556	-	1,292,556
Debt securities	-	25,424	-	25,424
Investment in unlisted managed investment schemes	-	13,984	12,011	25,995
Derivative financial assets	-	76,502	-	76,502
<b>Total financial assets</b>	-	1,408,466	12,011	1,420,477
<b>Liabilities</b>				
Other financial liabilities	-	16,324	-	16,324
Investment contract liabilities	-	14,603	113,761	128,364
<b>Total financial liabilities</b>	-	30,927	113,761	144,688

The following tables show 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 date:

2011 - Consolidated	Balance at the beginning of the year \$000	Total gains / (losses) \$000	Purchases / deposits \$000	Sales / withdrawal \$000	Net transfer in / (out) \$000	Balance at the end of the year \$000	Total gains and losses on assets and liabilities held at reporting date \$000
<b>Assets</b>							
Equity securities and listed managed investment schemes	2,338	82	-	(813)	-	1,607	82
Debt securities	-	774	-	(5,261)	9,798	5,311	774
Investment in unlisted managed investment schemes	12,011	(2,359)	-	(6,776)	-	2,876	(2,359)
<b>Total financial assets</b>	14,349	(1,503)	-	(12,850)	9,798	9,794	(1,503)
<b>Liabilities</b>							
Investment contract liabilities	113,761	(2,730)	3,464	(13,469)	-	101,026	(2,730)
<b>Total financial liabilities</b>	113,761	(2,730)	3,464	(13,469)	-	101,026	(2,730)



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (f) Fair value measures (continued)

2010 - Consolidated	Balance at the beginning of the year \$000	Total gains / (losses) \$000	Purchases / deposits \$000	Sales / withdrawals \$000	Net transfer in / (out) \$000	Balance at the end of the year \$000	Total gains and losses on assets and liabilities held at reporting date \$000
<b>Assets</b>							
Equity securities and listed managed investment schemes	3,428	(1,090)	-	-	-	2,338	(1,090)
Investment in unlisted managed investment schemes	45,692	(4,308)	1,031	(16,326)	(14,078)	12,011	(4,308)
<b>Total financial assets</b>	<b>49,120</b>	<b>(5,398)</b>	<b>1,031</b>	<b>(16,326)</b>	<b>(14,078)</b>	<b>14,349</b>	<b>(5,398)</b>
<b>Liabilities</b>							
Investment contract liabilities	120,356	5,552	3,955	(16,102)	-	113,761	5,552
<b>Total financial liabilities</b>	<b>120,356</b>	<b>5,552</b>	<b>3,955</b>	<b>(16,102)</b>	<b>-</b>	<b>113,761</b>	<b>5,552</b>

During 2010 an investment in a property unit fund that was previously blocked for redemptions was re-opened for redemptions. As a result daily unit prices based on market values were provided by the fund and it was no longer necessary to value the fund using a model. Consequently the investment was transferred from a level 3 instrument to a level 2 instrument.

2011 - Parent	Balance at the beginning of the year \$000	Total gains / (losses) \$000	Purchases / deposits \$000	Sales / withdrawals \$000	Net transfer in / (out) \$000	Balance at the end of the year \$000	Total gains and losses on assets and liabilities held at reporting date \$000
<b>Assets</b>							
Investment in unlisted managed investment schemes	12,011	(2,359)	-	(6,776)	-	2,876	(2,359)
<b>Total financial assets</b>	<b>12,011</b>	<b>(2,359)</b>	<b>-</b>	<b>(6,776)</b>	<b>-</b>	<b>2,876</b>	<b>(2,359)</b>
<b>Liabilities</b>							
Investment contract liabilities	113,761	(2,730)	3,464	(13,469)	-	101,026	(2,730)
<b>Total financial liabilities</b>	<b>113,761</b>	<b>(2,730)</b>	<b>3,464</b>	<b>(13,469)</b>	<b>-</b>	<b>101,026</b>	<b>(2,730)</b>



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

### (f) Fair value measures (continued)

	Balance at the beginning of the year	Total gains / (losses)	Purchases / deposits	Sales/ withdrawals	Net transfer in / (out)	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>2010 – Parent</b>							
<b>Assets</b>							
Investment in unlisted managed investment schemes	44,105	(4,308)	1,031	(16,326)	(12,491)	12,011	(4,308)
<b>Total financial assets</b>	<b>44,105</b>	<b>(4,308)</b>	<b>1,031</b>	<b>(16,326)</b>	<b>(12,491)</b>	<b>12,011</b>	<b>(4,308)</b>
<b>Liabilities</b>							
Investment contract liabilities	120,356	5,552	3,955	(16,102)	-	113,761	5,552
<b>Total financial liabilities</b>	<b>120,356</b>	<b>5,552</b>	<b>3,955</b>	<b>(16,102)</b>	<b>-</b>	<b>113,761</b>	<b>5,552</b>

The following tables show the sensitivity of the fair value of level 3 instruments to changes in key assumptions:

Consolidated	2011			2010		
	Carrying amount	Effect of reasonably possible alternative assumptions		Carrying amount	Effect of reasonably possible alternative assumptions	
		(+)	(-)		(+)	(-)
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Equity securities and listed managed investment schemes	1,607	85	(85)	2,338	231	(231)
Debt securities	6,311	1,036	(687)	-	-	-
Investments in unlisted managed investment schemes	2,876	95	-	12,011	238	(116)
<b>Total financial assets</b>	<b>9,794</b>	<b>1,216</b>	<b>(772)</b>	<b>14,349</b>	<b>469</b>	<b>(347)</b>

Parent	2011			2010		
	Carrying amount	Effect of reasonably possible alternative assumptions		Carrying amount	Effect of reasonably possible alternative assumptions	
		(+)	(-)		(+)	(-)
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Investment in unlisted managed investment schemes	2,876	95	-	12,011	238	(116)
<b>Total financial assets</b>	<b>2,876</b>	<b>95</b>	<b>-</b>	<b>12,011</b>	<b>238</b>	<b>(116)</b>

The sensitivity has been calculated by changing key inputs such as discount rates and earnings multiples by a reasonably possible amount.



## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

#### (f) Fair value measures (continued)

The Branch recognises loans against policies with a carrying value of \$54.7m (2010: \$58.0m) on the amortised cost basis. These loans attract interest at a rate of 6.0 % p.a. (2010: 6.5 % p.a.) Because the loans are 100 % secured against policies no impairment is expected to occur and the fair value of the loans approximate the carrying value.

### 19. CAPITAL MANAGEMENT

The Branch holds capital to protect customers, creditors and shareholders against unexpected losses to a level that is consistent with AMP's risk appetite.

The Branch assesses the adequacy of its capital requirements against regulatory capital requirements. The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process.

In addition to managing the level of capital resources, the AMP group also attempts to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

The Branch is an operating entity within the AMP group and is a regulated company.

The minimum regulatory capital requirement (MRR) is the amount of capital required by each of AMP's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirements are as follows:

AMP Life – Solvency, capital adequacy and management capital requirements as specified under the Life Act and APRA Life Insurance Prudential Standards.

The Branch as a regulated entity has at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

AMP's regulated businesses each target a level of capital equal to MRR plus a target surplus. The Branch's Statutory Fund's target surplus is set by reference to a probability of breaching regulatory capital requirements. This is a two tiered test where the target surplus is set as the greater of the amount required for a:

- 1 per cent probability of breaching solvency over one year
- 10 per cent probability of breaching capital adequacy over one year.

The APRA life and general insurance prudential review aims to align the capital framework of APRA-regulated life and general insurance companies. APRA expects to issue final standards in May 2012, which are likely to take effect from 1 January 2013. AMP has commenced an assessment of the impact of these draft prudential standards on its regulatory capital position. While the assessment is still ongoing, it is expected that there will be an increase in minimum regulatory capital requirements. With ongoing disciplined capital management, the Branch expects to continue to maintain a strong surplus to minimum regulatory capital requirements.

The Reserve Bank of New Zealand has finalised new New Zealand Solvency Standards for New Zealand life insurance companies. AMP Life is likely to be exempt from most aspects of these proposals on the basis of its compliance with APRA solvency standards.

Other regulatory capital reviews underway include:

- APRA development of a supervision framework for conglomerate groups. A further update on these proposals are expected in 2012.

The Branch continues to maintain a prudent approach to capital.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 20. NOTES TO THE CASH FLOW STATEMENT

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>(a) Reconciliation of the net profit after income tax to cash flows from / (used in) operating activities</b>				
Net profit after income tax	100,601	76,390	111,256	85,628
Depreciation, amortisation, impairment and loss on disposals	3,835	3,761	-	-
Other non-cash items	459	727	21	-
Net realised and unrealised gains and losses on investment assets	(150,455)	(86,384)	(226,912)	(159,422)
Defined contribution expense	(2,328)	(2,328)	-	-
Increase / (decrease) in life insurance contract liabilities	(31,504)	21,820	(31,504)	21,820
Decrease in investment contract liabilities	(15,040)	(8,508)	(15,040)	(8,508)
Decrease in income tax balances	64,060	10,905	70,992	14,654
(Increase) / decrease in other operating assets and liabilities	(20,380)	11,713	(21,140)	21,095
<b>Cash flows from / (used in) operating activities</b>	<b>(50,752)</b>	<b>28,096</b>	<b>(112,327)</b>	<b>(24,733)</b>

	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>(b) Reconciliation of cash and cash equivalents</b>				
Comprises:				
Cash on hand	21,127	34,368	14,204	18,686
Cash on deposit	116,586	173,546	12,135	18,914
<b>Balance at the end of the year</b>	<b>137,713</b>	<b>207,914</b>	<b>26,339</b>	<b>37,600</b>

For the purposes of the cash flow statement, cash and cash equivalents comprise the above. Cash at bank earns interest at floating rates predominately based on overnight cash rates.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 21. DEFINED BENEFIT PLAN LIABILITY AND COMMITMENTS

The following tables summarise the components of the net amounts recognised in the Income statement and the net amounts recognised in the Statement of financial position for the superannuation plan of a controlled entity. As noted in note 2(bb), certain controlled entities are participating employers within the AMP (New Zealand) Staff Superannuation Plan and the figures below represent the Branch's share of the total plan.

The Branch's share is determined using information on the actual liability owed to individual members of the plan. As a result, the Branch recognises 96% of the total plan.

	Consolidated	
	2011	2010
	\$000	\$000
<b>(a) Defined benefit income</b>		
Current service costs	(18)	(19)
Interest cost	(1,246)	(1,314)
Expected return on plan assets	1,298	1,381
Contributions income	17	24
<b>Total defined benefit income</b>	<b>51</b>	<b>72</b>
<b>(b) Amounts recognised in the Statement of comprehensive income</b>		
Immediate recognition of loss	(7,127)	(605)
Total recognised via the Statement of comprehensive income	(7,127)	(605)
Cumulative amount of income recognised via Statement of comprehensive income at the start of the period	(10,449)	(9,844)
Cumulative amount of income recognised via Statement of comprehensive income at the end of the period	(17,576)	(10,449)
Actual return on plan assets	(467)	355
<b>(c) Movement in defined benefit obligation</b>		
Balance at the beginning of the period	30,421	32,006
Current service cost	18	19
Interest cost	1,246	1,314
Contributions by plan participants	15	43
Actuarial gains and losses	2,996	(620)
Benefits paid	(2,345)	(2,340)
<b>Balance at the end of the period</b>	<b>32,351</b>	<b>30,422</b>
<b>(d) Movement in fair value of plan assets</b>		
Balance at beginning of the period	22,047	22,494
Expected return on plan assets	1,298	1,381
Actuarial gains and losses	(1,781)	(1,025)
Contributions by the employer	1,588	1,495
Contributions by plan participants	15	43
Benefit paid	(2,345)	(2,341)
<b>Balance at the end of the period</b>	<b>20,822</b>	<b>22,047</b>
<b>(e) Defined benefit deficit</b>		
Present value of wholly funded defined benefit obligations	(32,351)	(30,422)
Less fair value of plan assets	20,822	22,047
Contributions tax	(5,719)	(4,125)
<b>Net defined benefit deficit recognised in the Statement of financial position</b>	<b>(17,248)</b>	<b>(12,500)</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 21. DEFINED BENEFIT PLAN LIABILITY AND COMMITMENTS (CONTINUED)

	Consolidated	
	2011	2010
	\$000	\$000
<b>(f) Movement in net defined benefit deficit</b>		
Deficit at the beginning of the period	(12,500)	(14,197)
Plus total income recognised in income	51	71
Plus employer contributions	2,329	2,231
Less actuarial losses recognised in other comprehensive income	(7,128)	(605)
<b>Deficit at the end of the period</b>	<b>(17,248)</b>	<b>(12,500)</b>

<b>(g) Historical analysis of defined deficit / (benefit) surplus</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Present value of wholly funded defined benefit obligations	32,351	30,422	32,006	29,860
Less fair value of plan assets	20,822	22,047	22,494	21,452
<b>Net defined (benefit) / deficit surplus recognised in the Statement of financial position</b>	<b>(11,529)</b>	<b>(8,375)</b>	<b>(9,512)</b>	<b>(8,408)</b>
Actuarial gains arising on plan liabilities	516	361	1,189	2,010
Actuarial losses arising on plan assets	1,781	(1,025)	(1,540)	(8,601)
Change in assumptions gain / (loss) – plan liabilities	3,429	259	(2,328)	(855)

Expected contributions for the financial year ending 31 December 2012 are \$1,472,000. This expectation is based on the latest information from the external actuaries, Mercer (NZ) Limited in their report of 31 December 2011.

### Fair Value of Plan Assets

The fair value of Plan assets includes no amounts relating to:

- any of the Employer's own financial instruments <sup>(1)</sup>
- any property occupied by, or other assets used by, the Employer

The expected return on assets assumption is determined by weighting the expected long term return for each class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax and investment fees.

### (h) Principal actuarial assumptions at reporting date

The following table sets out the principal actuarial assumptions used as at the reporting date in measuring the defined-benefit obligations of the defined-benefit fund:

	2011	2010
	%	%
Discount rate	3.00	4.20
Expected rate of return on assets (after tax and expenses)	6.00	6.25
Inflation increases	2.50	0.75
Future pension increases	1.88	2.20

Pensioner mortality is based on the NZ Life table 2005-2007 rated down two years.

<sup>(1)</sup> More than 90% of the Plan assets are invested in AMP investment funds.





# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 21. DEFINED BENEFIT PLAN LIABILITY AND COMMITMENTS (CONTINUED)

### (i) Arrangements for employer contributions for funding defined-benefit funds

At the dates of the most recent financial reports of the plan, the deficit measured as the difference between the net market value of plan assets and the accrued benefits of the plans was \$11.5m (2010: \$8.4m) for the defined-benefit fund.

#### *Funding methods and current recommendations*

The defined-benefit funds funding policy is intended to fully cover benefits by the time they become payable. The main group of benefits is the pension rights of retired members and their spouses. The retirement benefits of active members are valued on a simplified actuarial projection basis as they are not material to the valuation of the fund.

### (j) Allocation of assets

Shown in the following table are the asset allocations of the defined benefit funds.

	2011	2010
The percentage invested in each asset class at the balance date:		
Equity	59 %	63 %
Fixed income	23 %	20 %
Property	11 %	12 %
Cash	7 %	5 %

### (k) Defined contribution schemes

Certain controlled entities of the Branch paid \$2.3m (2010: \$2.3m) to fund the deficits of defined contribution schemes.

## 22. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	% Holdings	
			2011	2010
Allmarg Corporation Limited	New Zealand	Ordinary, Preference	100.0	100.0
AMP Capital Investments No. 2 Limited	New Zealand	Ordinary A & B, Redeemable Preference	99.9	99.9
Arthur Ellis & Co Limited <sup>1</sup>	New Zealand	Ordinary	-	100.0
Donaghys Limited	New Zealand	Ordinary	58.0	58.0
Donaghys Australia Pty Limited	Australia	Ordinary	58.0	58.0
Donaghys Industries Limited	New Zealand	Ordinary	58.0	58.0
Donaghys International Limited	New Zealand	Ordinary	58.0	58.0
Donaghys Pty Limited	Australia	Ordinary	58.0	58.0
AMP Capital Investments No. 8 Limited	New Zealand	Ordinary A & B, Z Preference & Redeemable Preference	99.9	99.9
AMP Capital Investments No. 11 Limited	New Zealand	Ordinary A & B, Redeemable Preference	80.0	80.0
AMP Capital Investments No. 14 Limited	New Zealand	Ordinary A & B, Redeemable Preference	99.9	99.9
Kiwi Kat Limited	New Zealand	Ordinary	70.0	70.0
AMP Life (NZ) Investments Holdings Limited	New Zealand	Ordinary	100.0	100.0
AMP Life (NZ) Investments Limited	New Zealand	Ordinary	100.0	100.0
AMP Services (NZ) Limited	New Zealand	Ordinary	100.0	100.0
AMP/ERGO Mortgage and Savings Limited	New Zealand	Ordinary	100.0	100.0
Roost 2007 Limited	New Zealand	Ordinary	100.0	100.0

<sup>1</sup> Arthur Ellis and Company Limited was amalgamated into AMP Capital Investments No. 2 Limited on 21 December 2011

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 23. INVESTMENTS IN ASSOCIATED ENTITIES

Investments in associates held by the life statutory fund measured at fair value through profit or loss (1)

COMPANIES		Ownership interest		Carrying amount	
NAME OF COMPANY	PRINCIPAL ACTIVITY	2011 %	2010 %	2011 \$000	2010 \$000
Zeacom Group Limited <sup>2</sup>	Computer Technology	-	27	-	2,338
Total investments held by the life statutory fund in associated companies				-	2,338

<sup>2</sup> Company ceased being an associated entity during 2011.

NAME OF UNIT TRUSTS AND OTHER ENTITIES		Ownership interest		Carrying amount	
	PRINCIPAL ACTIVITY	2010 %	2010 %	2011 \$000	2010 \$000
<b>Parent and Consolidated</b>					
AMP Pencarrow Private Capital Joint Venture Fund	Investment vehicle	34	34	2,876	12,011
AMP Investments World Index Fund	Passive International Equities	45	46	67,657	88,497
AMP Capital NZ Shares Fund (formerly AMP Equity Fund)	Equity Investment	43	46	125,875	132,090
AMP Capital Global Shares Fund (formerly AMP Global Equities Fund)	Passive International Equities	27	26	38,602	43,745
AMP Capital Property Portfolio (formerly AMP NZ Property Portfolio)	Property Investment	38	38	301,573	343,315
AMP Capital Strategic NZ Shares Fund (formerly AMP Strategic Equity Fund)	Equity Investment	33	33	166,659	167,186
Total investments held by the life statutory fund in associated unit trusts and other entities				703,242	786,844

Investment in associated entities that back investment contract and life insurance contract liabilities are treated as financial assets and are carried at fair value. Refer to Note 1(h).

The balance date for all significant associated entities is 31 December.

In the course of normal operating investment activities the life statutory fund holds investments in various operating businesses. Investments in associated entities reflect investments where the life statutory fund holds between a 20% and 50% equity interest.

## 24. LEASING AND OTHER COMMITMENTS

	Consolidated		Parent	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Note				
<b>Operating lease commitments (non-cancellable)</b>				
Due within one year	3,171	4,934	-	-
Due within one year to five years	8,523	12,512	-	-
Due later than five years	4,450	5,902	-	-
<b>Total operating lease commitments</b>	<b>16,144</b>	<b>23,348</b>	<b>-</b>	<b>-</b>

The above leases are primarily in respect of properties from which the Branch and its controlled entities operate. These leases have an average life of 7 years with renewal terms included in the contracts at the option of the lessee. There are no significant restrictions placed upon the lessee by entering into these. The total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period is \$ nil (2010: \$1.7m)



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

## 25. CONTINGENT LIABILITIES AND FORWARD INVESTMENTS

### Contingent Liabilities

The Branch from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business including guarantees issued by the Branch for performance obligations to controlled entities in the Branch's group.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice seriously the position of the Branch (or its insurers) in a dispute, accounting standards allow the Branch not to disclose such information and it is the Branch's policy that such information is not to be disclosed in this note.

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

### Forward investments

Note	Consolidated		Parent	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<b>Forward investments – callable at any time</b>				
<b>Uncalled capital on units in relation to:</b>				
- associated entities	4,253	4,253	4,253	4,253
<b>Total forward investments</b>	<b>4,253</b>	<b>4,253</b>	<b>4,253</b>	<b>4,253</b>

Uncalled capital represents a commitment to make further capital commitments for unit trusts held within the statutory fund.

## 26. RELATED PARTY DISCLOSURES

The Branch comprises the New Zealand operations of AMP Life Limited, which is incorporated in New South Wales, Australia. The Branch transacts with other entities within the AMP Group of companies and other related parties in the normal course of its business.

### (a) Key management personnel (KMP) details

The following individuals were the key management personnel of the Branch (being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) ) of AMP Life Limited for the whole or part of the reporting period as indicated:

Name	Position
Richard Grellman	Non-Executive Director, resigned 12 May 2011
Craig Dunn	Director, Chief Executive Officer AMP Limited
Catherine Brenner	Chairman, Non-Executive Director
Anthony Coleman	Non-Executive Director, appointed 14 February 2011
Craig Meller	Managing Director, AMP Financial Services
John Palmer	Non-Executive Director
Peter Shergold	Non-Executive Director
Geoffrey Roberts	Non-Executive Director, appointed 1 July 2011

### (b) Remuneration of key management personnel

The following table provides aggregate details of the compensation of key management personnel of the entity.

	Short term benefits	Post employment benefits	Share-based payments	Total
2011	5,396	85	3,341	8,822
2010	6,058	73	3,025	9,156

# AMP Life Limited (New Zealand Branch)

## Notes to the Financial Statements for the year ended 31 December 2011

### 26. RELATED PARTY DISCLOSURES (CONTINUED)

#### (c) Transactions with key related parties

Transactions with related parties are made at arms length and on normal commercial terms. Outstanding balances at 31 December 2010 and 31 December 2011 are unsecured, non interest bearing and settlement occurs in cash or through inter-company accounts as necessary.

#### (i) Parent

The Parent purchases administrative services from AMP Services (NZ) Limited on a fee service basis (2011: \$48.6m, 2010: \$70.8m). Services purchased include product distribution, marketing, payroll, personnel, computing and accounting services.

The Parent receives administrative services from AMP Capital Investors Limited in Australia and investment services from AMP Capital Investors (New Zealand) Limited (AMP Capital) (2011: \$0.9 million, 2010: \$1.0 m). AMP Capital manages the investment assets of the policyholder fund and the shareholder fund. AMP Capital is also the responsible entity of a number of the controlled entities and associated unit trusts detailed in notes 22 and 23.

The Parent acquired tax losses from Summerset Group Holdings Limited of \$1.9 million which were used to offset its taxable profit for the tax year ended 31 December 2009. No consideration was paid for these losses as they relate to the period before the investment in this company was sold. In the previous year, the Parent acquired tax losses of \$11.3 million from Donaghys Limited consolidated tax group and \$4.5 million from Donaghys International Limited which were used to offset its taxable profit for the tax year ended 31 December 2008. Consideration of \$3.7m (a 20% discount) was paid to acquire these losses. In the same year, the Parent sold tax losses of \$6.5 million to AMP/ERGO Mortgage and Savings Limited and \$2.3 million to Allmarg Corporation relating to the tax year ended 31 December 2008. Consideration of \$2.6 million was received for these losses.

In the previous year the Parent received \$30.0m in dividends from AMP Services (New Zealand) Limited and \$0.8m from AMP Capital Investments no 11 Limited. In the previous year the Parent transferred \$54.3 m from reserves to AMP Life Limited (Australia). Included within payables at 31 December 2010 was an amount of \$19.7m relating to the transfer of profit to the Australian parent branch at 31 December 2010. No funds were transferred from reserves to AMP Life Limited (Australia) in the current period.

The following table provides the amount of transactions which the Parent has entered into with related parties for the relevant financial year:

	For the year ended 31 December		As at 31 December	
	Service, management and other fee revenue from related parties \$000	Service, management and other fee expense to related parties \$000	Amounts owed by related parties \$000	Amounts owed to related parties \$000
Fellow subsidiaries of AMP				
AMP Services (New Zealand) Limited	2011 2010	- 70,817	48,615 -	- 3,099 5,173
AMP Capital Investors (New Zealand) Limited	2011 2010	- 473	415 -	- -
AMP Capital Investors Limited	2011 2010	- 543	525 -	- 984 930
AMP Life (NZ) Investments Holdings Limited	2011 2010	- -	- -	1,071,152 1,071,152
AMP Life (NZ) Investments Limited	2011 2010	66 -	- -	- 23
				32,075 27,872



## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

### 26. RELATED PARTY DISCLOSURES (CONTINUED)

#### (c) Transactions with key related parties (continued)

##### (ii) Consolidated

The Branch receives administrative services from AMP Services Limited (Australia) (2011: \$23.9m, 2010: \$12.2m) and investment services from AMP Capital Investors Limited and AMP Capital Investors (New Zealand) Limited (2011: \$11.5m, 2010: \$10.5m).

The Branch acquired tax losses from Summerset Group Holdings Limited of \$8.4 million which were used to offset its taxable profit for the tax year ended 31 December 2009. No consideration was paid for these losses as they relate to the period before the investment in this company was sold. In the previous year, the Branch acquired tax losses of \$6.6 million from Summerset Group Holdings Limited which were used to offset its taxable profit for the tax year ended 31 December 2008. Consideration of \$1.9 million was paid to acquire these losses.

The following table provides the amount of transactions which the Branch has entered into with related parties for the relevant financial year:

		For the year ended 31 December		As at 31 December	
		Service, management and other fee revenue from related parties \$000	Service, management and other fee expense to related parties \$000	Amounts owed by related parties \$000	Amounts owed to related parties \$000
Fellow subsidiaries of AMP					
AMP Services Limited (Australia)	2011	-	25,423	-	3,108
	2010	-	12,260	-	3,509
AMP Capital Investors (New Zealand) Limited	2011	228	7,549	-	1,137
	2010	311	6,860	-	196
AMP Capital Investors Limited	2011	-	4,035	-	1,002
	2010	-	3,614	-	946

### 27. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, the Directors are not aware of any matter or circumstance that has arisen since 31 December 2011 which has significantly affected or may significantly affect the operations of the Branch, the results of its operations or its state of affairs, which is not already reflected in these financial statements.

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2011

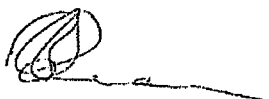
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### Actuary's Statement

I certify that in my opinion:

- (a) other than in respect of deferred tax balances (see note 2(m)) the policy liabilities and solvency of AMP Life Limited (New Zealand) Branch have been determined using methods and assumptions consistent with the Australian actuarial standards and guidelines.
- (b) appropriate and accurate records have been kept by AMP Life Limited from which its New Zealand Branch policy liabilities and solvency have been determined.
- (c) I am satisfied as to the accuracy of the data used in the valuations in the financial statements and in the tables in notes 16 and 17.

I have also ascertained from the Appointed Actuary of AMP Life Limited (Mr R Mangano) that the allocation and distribution of the profits of the AMP Life Limited Statutory Fund No. 1 New Zealand Branch has been made in accordance with Divisions 5 and 6 of Part 4 of the Australian Life Insurance Act 1995 and the constitution of AMP Life Limited.



**Bruce Cameron**

Head of Actuarial Integration and Special Projects, FIAA

Sydney

Australia

7 May 2012

**Independent Auditor's Report****To the Shareholder of AMP Life Limited****Report on the Financial Statements**

We have audited the financial statements of the New Zealand branch of AMP Life Limited and its subsidiaries on pages 1 to 62, which comprise the statement of financial position of the New Zealand branch of AMP Life Limited and group as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder in accordance with Section 19(3) of the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholder, for our audit work, for this report, or for the opinions we have formed.

**Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interest in the New Zealand branch of the company or any of its subsidiaries.

Partners and employees of our firm may deal with the New Zealand branch of the company on normal terms within the ordinary course of trading activities of the business of the New Zealand branch of the company.

**Opinion**

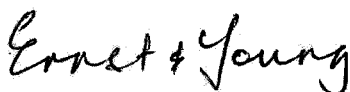
In our opinion, the financial statements on pages 1 to 62:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of the New Zealand branch of AMP Life Limited and the group as at 31 December 2011 and the financial performance and cash flows of the New Zealand branch of the company and group for the year then ended.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by the New Zealand branch of AMP Life Limited as far as appears from our examination of those records.



7 May 2012  
Auckland



## **AMP Life Limited**

ABN 84 079 300 379

**Financial Report  
for the year ended  
31 December 2011**





# AMP LIFE LIMITED

ABN 84 079 300 379

## FINANCIAL REPORT 31 DECEMBER 2011

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Registered Office:  
Level 24, 33 Alfred Street  
Sydney NSW 2000 Australia

AMP Life Limited, a company limited by shares, is incorporated and domiciled in Australia.

**AMP Life Limited**  
**Directors' Report**  
for the year ended 31 December 2011

The directors of AMP Life Limited (the Company) present their report on the company for the financial year ended 31 December 2011.

AMP Life Limited ('AMP Life' or 'the Company') is a company limited by shares and is incorporated and domiciled in Australia. AMP Financial Services Holdings Limited is the company's parent entity and AMP Limited is the ultimate parent entity.

The Registered Office of the Company is at Level 24, 33 Alfred Street, Sydney, NSW 2000.

**Directors**

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

Richard Grellman	Chairman, Non-Executive Director	Resigned: 12 May 2011
Craig Dunn	Director, Chief Executive Officer - AMP Limited	
Catherine Brenner	Chairman, Non-Executive Director	
Anthony Coleman	Non-Executive Director	Appointed: 14 February 2011
Craig Moller	Managing Director - AMP Financial Services	
John Palmer	Non-Executive Director	
Peter Shergold	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Appointed: 1 July 2011

**Principal activities**

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

**Review of operations and results**

The operating result for the year ended 31 December 2011 was a profit after tax of \$680m (2010: \$592m).

**Dividends**

Details of the dividends paid and dividends recommended or declared for payment but not paid are disclosed in Note 15 of the Financial Report.

**Significant changes in the state of affairs**

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

**Events occurring after reporting date**

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected or may significantly affect the Company's operations in future years; the results of those operations in future years; or the entity's state of affairs in future years which is not already reflected in this report.

**Likely developments**

Information about likely developments in the operations of the Company and the expected results of those operations in future years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

**Environmental regulation**

AMP Life believes that sound environmental management makes good business sense and creates value for our shareholder, customers, employees and the community.

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

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

**Duty of the directors under the Life Insurance Act 1995**

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

**AMP Life Limited**  
**Directors' Report**  
for the year ended 31 December 2011

**Indemnification and insurance of directors and officers**

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

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

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

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

- the director will have access to the books of the company for their period of office and for seven years after they cease to hold office (subject to certain conditions); and
- AMPGH agrees to indemnify the director, to the extent permitted by law, against any liability incurred by the Director in his or her capacity as a director of the company and of other AMP group companies.


**Auditors' Independence**

The directors have obtained an independence declaration from the Company's auditor, Ernst & Young a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2011.

**Rounding**

In accordance with the Australian Securities and Investments Commission (ASIC) Class Order 98/100, amounts in this Directors' Report, and the accompanying Financial Report have been rounded off to the nearest million Australian dollars, unless stated to be otherwise.

Signed in accordance with a resolution of the directors.

  
(signature)

CRAIG MELLER  
(name)

Director

Sydney, 26 March 2012

  
(signature)

CATHERINE BRENNER  
(name)

Director



Ernst & Young Centre  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001  
Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
[www.ey.com/au](http://www.ey.com/au)

## Auditor's Independence Declaration to the Directors of AMP Life Limited

In relation to our audit of the financial report of AMP Life Limited for the financial year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

*Ernst & Young*  
Ernst & Young

A handwritten signature in black ink, appearing to read 'AP', written over the printed name of the partner.

Andrew Price  
Partner  
26 March 2012

**AMP Life Limited**  
**Statement of comprehensive income**  
for the year ended 31 December 2011

	Note	2011 \$m	2010 \$m
<b>Income and expenses of policyholders and the shareholder<sup>(1)</sup></b>			
Life insurance premium and related revenue	17(a)	1,140	1,100
Fee revenue	3(a)	927	930
Other revenue	3(b)	2	17
Investment gains and (losses)	3(c)	543	3,393
Insurance claims and related expenses	17(b)	(1,228)	(1,289)
Operating expenses	4(a)	(1,342)	(1,300)
Finance costs	4(b)	(66)	(33)
Change in policyholder liabilities			
- Life insurance contracts	17(e)	82	202
- Investment contracts		539	(2,259)
Gain on sale of controlled entity		40	-
<b>Profit for the year before income tax</b>		<b>637</b>	<b>761</b>
Income tax (expense) credit <sup>(1)</sup>	5(a)	43	(169)
<b>Profit for the year</b>		<b>680</b>	<b>592</b>
<b>Other comprehensive income recognised in reserves</b>			
Exchange differences on translation of foreign operations			
- exchange losses		(1)	(16)
<b>Total comprehensive income for the year</b>		<b>679</b>	<b>576</b>

**Footnote:**

(1) Income and expenses include amounts attributable to the shareholders' interests and policyholders' interests in the life statutory funds. Amounts included in respect of the life statutory funds have a substantial impact on most of the statement of comprehensive income lines, especially investment gains and losses and tax. In general, policyholders' interests in the transactions for the period are attributed to them in the lines Change in policyholder liabilities.

**AMP Life Limited**  
**Statement of financial position**  
as at 31 December 2011

	Note	2011 \$m	2010 \$m
<b>Assets</b>			
Cash and cash equivalents		3,260	2,354
Receivables	6	904	518
Current tax assets		16	-
Other assets	7	4	4
Investments in financial assets measured at fair value through profit or loss	8	62,382	65,910
Investment properties	9	1,781	1,703
Property, plant and equipment	10	22	24
Deferred tax assets	5(c)	567	346
Intangibles	11	517	517
Investments in controlled entities	8	1,500	1,472
<b>Total assets of policyholders and the shareholder</b>		<b>70,953</b>	<b>72,848</b>
<b>Liabilities</b>			
Payables	12	710	675
Current tax liabilities		184	190
Provisions	13	1	7
Other financial liabilities	8	744	1,586
Borrowings	14	573	587
Deferred tax liabilities	5(d)	404	517
Life insurance contract liabilities	17(d)	17,345	17,762
Investment contract liabilities		47,799	48,580
<b>Total liabilities of policyholders and the shareholder</b>		<b>67,760</b>	<b>69,904</b>
<b>Net assets of AMP Life Limited</b>		<b>3,193</b>	<b>2,944</b>
<b>Equity<sup>(1)</sup></b>			
Contributed equity	15	1,091	1,091
Reserves		(49)	(48)
Retained earnings		2,151	1,901
<b>Total equity of AMP Life Limited</b>		<b>3,193</b>	<b>2,944</b>

Footnote

(1) Further information on Equity is provided on the Statement of changes in equity on the following page.

**AMP Life Limited**  
**Statement of changes in equity**  
for the year ended 31 December 2011

	Contributed equity \$m	Foreign currency translation reserve \$m	Retained earnings \$m	Total equity \$m
<b>2011</b>				
Balance at the beginning of the year	1,091	(48)	1,901	2,944
Profit for the year	-	-	680	680
Other comprehensive income	-	(1)	-	(1)
Total comprehensive income	-	(1)	680	679
Dividends paid	-	-	(430)	(430)
<b>Balance at the end of the year</b>	<b>1,091</b>	<b>(48)</b>	<b>2,151</b>	<b>3,193</b>
<b>2010</b>				
Balance at the beginning of the year	1,091	(32)	1,684	2,743
Profit for the year	-	-	592	592
Other comprehensive income	-	(16)	-	(16)
Total comprehensive income	-	(16)	592	576
Dividends paid	-	-	(375)	(375)
<b>Balance at the end of the year</b>	<b>1,091</b>	<b>(48)</b>	<b>1,901</b>	<b>2,944</b>

**AMP Life Limited**  
**Statement of cash flows**  
for the year ended 31 December 2011

	Note	2011 \$m	2010 \$m
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		12,702	11,172
Interest and other items of a similar nature received		746	697
Dividends and distributions received		1,546	1,130
Cash payments in the course of operations		(13,667)	(12,697)
Finance costs		(55)	24
Income tax refunded/(paid)		(306)	97
<b>Cash flows from operating activities</b>	<b>2(a)</b>	<b>966</b>	<b>423</b>
<b>Cash flows from investing activities</b>			
Net proceeds from sale of/(payments to acquire):			
- investment property		(14)	(31)
- investments in financial assets <sup>(2)</sup>		(2,092)	634
Proceeds from disposal of subsidiaries and other businesses <sup>(1)</sup>		-	297
Payments to acquire subsidiaries and other businesses		-	(19)
<b>Cash flows (used in) / from investing activities</b>		<b>(2,106)</b>	<b>881</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2	3
Repayment of borrowings		(5)	(100)
Net movement in deposits from customers		5	(10)
Dividends paid	<b>5</b>	(430)	(375)
<b>Cash flows (used in) / from financing activities</b>		<b>(428)</b>	<b>(482)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(1,568)</b>	<b>822</b>
Cash and cash equivalents at beginning of the period		6,417	5,597
Effect of exchange rate changes on cash and cash equivalents		-	(2)
<b>Cash and cash equivalents at the end of the period</b>	<b>2(b)</b>	<b>4,849</b>	<b>6,417</b>

Footnote:

- (1) Proceeds are in respect of disposals of trusts and operating businesses controlled by the statutory funds which carry out business operations unrelated to the core wealth management operations of AMP Life, net of cash disposed of.
- (2) Net proceeds from the sale of/(payments to acquire) investments in financial assets comprise of purchases and sales of financial assets measured at fair value through profit or loss held by the AMP Life insurance entity's statutory funds largely reflecting policyholder investment decisions during the period.



**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to the current year and the comparative period unless otherwise stated. Where necessary, comparative information has been reclassified to be consistent with current period disclosures. This Financial Report includes financial statements for AMP Life Limited (hereafter referred to as *AMP Life* or *the company*) as a single entity only.

**(a) Basis of preparation**

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The Financial Report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board.

The significant accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to the current year and comparative period, unless otherwise stated.

Consolidated information has not been prepared to show the financial position and operations of AMP Life and its controlled entities at, or during the year ended, 31 December 2011 in accordance with exemptions available under Australian accounting standards. Consolidated information has been prepared and is available for the ultimate parent, AMP Limited, and its controlled entities.

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

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of AMP Life are investment assets held to back investment contract and life insurance contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within 12 months of the reporting date are not always known, estimates have been provided in Note 18(f) (for life statutory funds). Details of other amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

**Changes in accounting policy**

Since 1 January 2011, AMP Life has adopted a number of Australian accounting standards and Interpretations which are mandatory for annual periods beginning on or after 1 January 2011. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of AMP Life Limited.

The main standards adopted since 1 January 2011 were:

- **AASB 2010-3 Amendments to Australian Accounting standards arising from the Annual Improvements Project** and **AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project**. These standards make a series of minor amendments to various accounting standards. Some changes to the disclosures relating to the credit risk of financial instruments have been made as a result of these amending standards.
- **Revised AASB 124 Related Party Disclosures**: this revised standard includes some minor modifications to the definition of a related party which has resulted in a no change to the transactions and balances which are required to be disclosed in the notes to the financial statements.

**Australian accounting standards issued but not yet effective/Early adoption of Australian accounting standards**

A number of new accounting standards and amendments have been issued but not yet effective. AMP Life has not elected to early adopt any of these new standards or amendments in this Financial Report. These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of AMP Life other than the following:

- **AASB 9 Financial Instruments**: This standard makes significant changes to the way that financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity. AASB 9 is mandatory for adoption by the AMP Life in the year ending 31 December 2013. The financial impact to the AMP Life of adopting this standard has not yet been quantified.
- **AASB 10 Consolidated Financial Statements**, **AASB 11 Joint Arrangements**, **AASB 12 Disclosure of Interests in Other Entities**, the revised **AASB 127 Separate Financial Statements**, the revised **AASB 128 Investments in Associates and Joint Ventures** and **AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards**. These standards change the criteria for determining which entities are to be consolidated and which entities are to be accounted for using the equity method in preparing consolidated accounts and the required disclosures in relation to such entities. Each of these standards is mandatory for adoption by the AMP Life in the year ending 31 December 2013. The financial impact on the AMP Life of adopting these standards has not yet been quantified.
- **AASB 13 Fair Value Measurement**. AASB 13 centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards. The new standard requires quantitative and qualitative disclosures of all fair value measurements. AASB 13 is mandatory for adoption by AMP Life in the year ending 31 December 2013. The financial impact on the AMP Life of adopting AASB 13 has not yet been quantified.
- **Revised AASB 101 Presentation of Financial Statements**. The revised AASB 101 requires items in the Statement of comprehensive income to be segregated between those that will be eventually realised in the income statement in future periods and those that will not. The revised AASB 101 is mandatory for adoption by AMP Life in the year ending 31 December 2013. The changes to AASB 101 relate to presentation only and are not expected to have a financial impact on AMP Life.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

**Change in presentation of the Statement of financial position**

The Statement of financial position has been enhanced to show on a gross basis the collateral held by the life entities' statutory funds in relation to debt security repurchase agreements and the liability to return this collateral on settlement.

As in prior periods, securities subject to repurchase agreements are not derecognised from the Statement of financial position as the risk and rewards of ownership remain within the investment portfolio. However, collateral received from the counterparty and the liability to return this collateral is now presented on gross basis in the Statement of financial position.

This change has resulted in the following changes to the amounts presented in the financial statements:

- an decrease in Cash and cash equivalents in the Statement of financial position of \$2m (2010: \$0m);
- an increase in Investments in Financial assets measured at fair value through profit or loss in the Statement of financial position of \$639m (2010: \$1,398m);
- an increase in Other financial liabilities in the Statement of financial position of \$637m (2010: \$1,398m);
- an increase in the net payment to acquire investments in financial assets in the Statement of cash flows of \$761m (2010: \$374m increase in net proceeds from sale of investments in financial assets)
- an increase in Cash and cash equivalents at the beginning of the period in the Statement of cash flows of \$1,398m (2010: \$1,024m)
- an increase in Cash and cash equivalents at the end of the period in the Statement of cash flows of \$637m (2010: 1,398m)

There is no change to reported net assets or profit. Comparatives have been restated to be consistent with current year disclosures.

**(b) Accounting for wealth management and insurance business**

The accounting treatment of certain transactions in this Financial Report varies depending on the nature of the contract underlying the transactions. The two major contract classifications relevant to the wealth-management and insurance business of AMP Life are investment contracts and life insurance contracts.

For the purposes of this Financial Report, holders of investment contracts or life insurance contracts are collectively and individually referred to as *policy holders*.

**Investment contracts**

The majority of the business of AMP Life relates to wealth-management products such as savings, investment-linked and retirement income policies. The nature of this business is that AMP Life receives deposits from policyholders and those funds are invested on behalf of the policyholders. With the exception of fixed retirement income policies, the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. For fixed retirement income policies, the resulting liability is linked to the fair value of the fixed retirement income payments and associated management services.

Under accounting standards such contracts are defined as *life investment contracts* and described as *investment contracts* throughout this Financial Report.

**Life insurance contracts**

AMP Life also issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of AMP Life. These policies are referred to as *discretionary participating contracts*.

Under accounting standards, such contracts are defined as *life insurance contracts*.

**Assets measurement basis**

Assets backing investment contract and life insurance contract liabilities are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards.

Investment contract liabilities are measured at fair value as described in Note 1(r) and life insurance contract liabilities are measured as described in Note 1(q). Assets backing such liabilities are measured at fair value, to the extent permitted under Australian Accounting Standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Statement of comprehensive income, to the extent permitted under Australian Accounting Standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described later in Note 1.

All assets that back investment contract and life insurance contract liabilities are included within the life statutory funds and, as such, are separately identifiable.

To ensure consistency across AMP Life and, except where specifically stated otherwise, all financial assets and all non-financial assets, including those not backing investment or insurance contract liabilities, are also recognised at fair value through profit or loss to the extent permitted under Australian accounting standards. Similarly, adjustments to the value of such assets are recognised in the Statement of comprehensive income when the corresponding accounting standards allow such treatment. The accounting policy for the parent entity's investments in controlled entities is set out in Note 1(e).

**(c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are measured at fair value. For the purpose of the Statement of cash flows, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of outstanding bank overdrafts. Bank overdrafts are shown within Borrowings in the Statement of financial position.

## Notes to the financial statements

for the year ended 31 December 2011

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

**(d) Receivables**

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

**(e) Investments in financial assets**

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

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

Subsequent to initial recognition, fair value of investments measured at fair value through profit or loss is determined as follows:

- The fair value of equity securities in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, a fair value is established by using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
- The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities are valued using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
- The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment scheme at the reporting date.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 1(o).

There is no reduction for realisation costs in determining the fair value of financial assets measured at fair value through profit or loss.

**Investments in controlled entities**

Investments by the AMP Life shareholders fund in controlled entities (excluding unit trusts) are measured at cost less any accumulated impairment losses. Investments in controlled entities by the AMP Life statutory funds that back investment contract and life insurance contract liabilities are treated as financial assets, these are valued in the same manner as equity securities described in Note 1(e).

**(f) Associated entities**

Associated entities are defined as those entities over which AMP Life has significant influence but there is no capacity to control. Investments in associates, other than those backing investment contracts and life insurance contracts, are initially measured at cost plus any excess of the fair value of AMP Life's share of identifiable assets and liabilities above cost at acquisition date subsequently adjusted for AMP Life's share of post-acquisition profit or loss and movements in reserves net of any impairment. Any dividend or distribution received from associates is accounted for as a reduction in carrying value of the associate.

Investments in associates held to back life insurance or life investment contracts are exempt from the requirement to apply equity accounting and have been designated on initial recognition as financial assets measured at fair value through profit or loss. These are valued in the same manner as equity securities described in Note 1(e).

**(g) Investment property**

Investment property is held to earn revenue from rentals and/or for the purposes of capital appreciation. Investment property includes all directly held freehold and leasehold properties. There are no property interests held under operating leases accounted for as investment property.

Investment property is initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value.

Changes in value of investment property are taken directly to the Statement of comprehensive income and may comprise changes in the fair value from revaluation of investment property, and fair value adjustments in relation to:

- the straight-lining of fixed rental income
- tenant incentives including rent free periods, landlord and tenant owned fit out contributions, and
- capitalised leasing fees.

The process adopted to determine fair values for investment properties are set out in note 9.

**(h) Property, plant and equipment**

Plant and equipment is initially measured at cost, including transaction costs. It is subsequently measured at cost less any subsequent accumulated depreciation and accumulated impairment losses. The written down amount approximates fair value.

Each item of plant and equipment is depreciated on a systematic basis over the useful life of the asset of 3–10 years.

Leasehold improvements are recognised as an asset only when it is probable that the future economic benefits associated with the asset will flow to AMP Life and the cost of the item can be reliably measured.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

**(i) Intangible assets**

*Goodwill*

When the aggregate of the fair value of the consideration transferred in a business combination, the recognised amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceeds the fair value of the identifiable assets acquired and liabilities assumed, the excess is recognised as goodwill. Subsequently, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not subject to amortisation but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of assessing impairment of goodwill, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the assets, including goodwill, an impairment loss is recognised in the Statement of comprehensive income.

**(j) Impairment of assets**

Assets measured at fair value, where changes in value are reflected in the Statement of comprehensive income, are not subject to impairment testing. As a result, all financial assets and investment properties are not subject to impairment testing. Other assets such as property, plant and equipment, goodwill and intangibles are subject to impairment testing.

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Any impairment loss, being the amount by which the carrying amount of an asset exceeds its recoverable amount, is recognised in the Statement of comprehensive income. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

**(k) Taxes**

*Tax consolidation*

AMP Limited and its wholly-owned Australian controlled entities which are Australian domiciled companies (including AMP Life Limited) comprise a tax-consolidated group of which AMP Limited is the head entity. The implementation date for the tax-consolidated group was 30 June 2003.

Under tax consolidation, AMP Limited, as head entity, assumes the following balances from subsidiaries within the tax-consolidated group:

- current tax balances arising from external transactions recognised by entities in the tax-consolidated group, occurring after the implementation date
- deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated group

A tax funding agreement has been entered into by the head entity and the controlled entities in the tax-consolidated group. Entities in the tax-consolidated group continue to be responsible, by the operation of the tax funding agreement, for funding tax payments required to be made by the head entity arising from underlying transactions of the controlled entities. Controlled entities make (receive) contributions to (from) the head entity for the balances assumed by the head entity, as described above. The contributions are calculated in accordance with the tax funding agreement. The contributions are payable as set out in the agreement and reflect the timing of AMP Limited's obligations to make payments to the Australian Taxation Office.

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

*Income Tax expense*

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

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

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

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

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

*Income tax for investment contracts and life insurance contracts business*

The income tax expense recognised in the Statement of comprehensive income arising in AMP Life reflects tax imposed on shareholders as well as policyholders.

Investment contracts and life insurance contracts liabilities are established in Australia net, and in New Zealand gross, of the policyholders' share of any current tax payable and deferred tax balances of the AMP Life Limited.

Arrangements made with some superannuation funds result in AMP Life making payments to the Australian Taxation Office in relation to contributions tax arising in those funds. The amounts paid are recognised as a decrease in investment contract liabilities and not included in income tax expense.

*Deferred tax*

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax, including amounts in respect of investment contracts and life insurance contracts, is not discounted to present value.

*Goods and services tax*

AMP Life operates across a number of tax jurisdictions and offers products and services that may be subject to various forms of goods and services tax (GST) imposed by local tax authorities.

All income, expenses and assets are recognised net of any GST paid, except where they relate to products and services which are input taxed for GST purposes or where the GST incurred is not recoverable from the relevant tax authorities. In such circumstances, the GST paid is recognised as part of the cost of acquisition of the assets or as part of the particular expense.

Receivables and payables are recorded with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as either a receivable or payable in the Statement of financial position.

Cash flows are reported on a gross basis reflecting any GST paid or collected. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, local tax authorities are classified as Operating cash flows.

**(l) Payables**

Payables that back investment contract and life insurance contract liabilities are financial liabilities and are measured at fair value. Other payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount approximates fair value.

**(m) Provisions**

Provisions are recognised when:

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

Where AMP Life expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. For provisions other than employee entitlements the discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

**(n) Borrowings**

All borrowings are financial liabilities and are initially recognised at fair value. Borrowings are subsequently measured at fair value through profit or loss, directly attributable transaction costs are expensed.

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### (c) Derivative financial assets and derivative financial liabilities

AMP Life is exposed to changes in interest and foreign exchange rates. To mitigate the risks arising from these exposures, AMP Life uses derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts. Derivative financial instruments are also used to gain exposure to various markets for asset and liability management purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. All derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

#### *Fair value estimation*

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting date. The quoted market price used is the current bid price; the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments.

### (p) Recognition and de-recognition of financial assets and financial liabilities

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

### (q) Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as *Margin on Services (MoS)*.

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

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

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

#### *Allocation of operating profit and unvested policyholder benefits*

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995* (Life Act).

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to shareholders is only allowed for overseas business with specific approval of the regulators.

Profit allocated to participating policyholders is recognised in the Statement of comprehensive income as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested) and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

Bonus distributions to participating policyholders are merely a change in the nature of the liability from unvested to vested and, as such, do not alter the amount of profit attributable to shareholders.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

The principles of allocation of the profit arising from discretionary participating business determined under the Life Act and MoS are as follows:

- (i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings, being 80:20.
- (ii) Other MoS profits arising from discretionary participating business (excluding the additional tax attributable to shareholders in respect of Australian superannuation business) are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
  - The profit arising from New Zealand corporate superannuation business is apportioned such that shareholders are allocated 15% of the profit allocated to policyholders.
  - The profit arising in respect of Preservation Superannuation Account business is allocated 92.5% to policyholders and 7.5% to shareholders.
- (iii) Additional tax on taxable income to shareholders in respect of Australian superannuation business is allocated to shareholders only.
- (iv) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in life statutory funds (excluding retained earnings dealt with in (i) above) are allocated to shareholders.

*Allocation of expenses within the life statutory funds*

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

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

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

Investment management expenses of the life statutory funds are classified as operating expenses. See Note 1(y).

**(r) Investment contract liabilities**

Investment contracts consist of a financial instrument and an investment management services element, both of which are measured at fair value. With the exception of fixed retirement-income policies, the resulting liability to policyholders is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets (after tax) charged to the policyholders except where this is an accounting mismatch.

For fixed retirement-income policies, the financial instrument element of the liability is the fair value of the fixed retirement-income payments, being their net present value using a risk-free discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon. The risk-free discount rate is determined by the Appointed Actuary based on the Zero Coupon Commonwealth Government bond curve plus a margin, depending on the nature, structure and terms of the contract liabilities.

**(s) Contributed equity**

*Issued capital*

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

**(t) Foreign currency transactions**

*Functional and presentation currency*

The Financial Report is presented in Australian dollars (the presentation currency). Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent entity is Australian dollars.

*Transactions and balances*

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date, with exchange gains and losses recognised in the Statement of comprehensive income.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

*Translation of foreign operation*

Where the functional currency of a foreign operation is not the presentation currency, the transactions and balances of that operation are translated as follows:

- income and expenses are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. In this case, income and expenses are translated at the dates of the transactions
- assets and liabilities are translated at the closing rate at the reporting date
- all resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

When a foreign operation is sold, the cumulative amount in the foreign currency translation reserve relating to that operation is recognised in the Statement of comprehensive income as part of the gain or loss on sale. If a portion of the operation is sold, the proportionate share of the cumulative amount is recognised.

**(u) Insurance premium and related revenue**

*Life insurance contracts*

Life insurance contract premiums are separated into their revenue and deposit components. Premium amounts earned by bearing insurance risks are recognised as revenue. Other premium amounts received, which are in the nature of deposits, are recognised as an increase in life insurance contract liabilities.

Premiums with no due date or fixed amount are recognised on a cash-received basis. Premiums with a regular due date are recognised on an accruals basis. Unpaid premiums are only recognised during the days of grace or where secured by the surrender value of the life insurance contract and are reported as outstanding premiums and classified as receivables in the Statement of financial position.

*Investment contracts*

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

- origination fees, advice fees and ongoing investment management fees. See Note 1(v).
- amounts credited directly to investment contract liabilities. See Note 1(r).

**(v) Fee and other revenue**

Fees are charged to customers in connection with investment contracts and other financial services contracts. Revenue is recognised as services are provided. In some cases services are provided at the inception of the contract, while other services are performed over the life of the contract.

An investment contract consists of a financial instrument and an investment-management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on commission paid to financial planners for providing initial advice. The financial instrument is classified as an investment contract and is measured at fair value. See Note 1(r).

The revenue that can be attributed to the origination service is recognised at inception. Any amounts paid to financial planners is also recognised as an expense at that time. See Note 1(y).

Fees for ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as the service is provided.

Fees charged for performing a significant act in relation to funds managed by AMP Life are recognised as revenue when that act has been completed.

**(w) Investment gains or losses**

Dividend and interest income is recognised in the Statement of comprehensive income on an accruals basis when AMP Life obtains control of the right to receive the revenue.

Realised and unrealised gains and losses include realised gains and losses being the change in value between the previously reported value and the amount received on sale of the asset, and unrealised gains and losses being changes in the fair value of financial assets and investment property recognised in the period.

Rents raised are on terms in accordance with individual leases, however they are generally due on the first day of each month.

Certain tenant allowances that are classified as lease incentives such as rent-free periods, fit-outs and upfront payments are capitalised and amortised over the term of the lease. The aggregate cost of incentives is recognised as a reduction to revenue from rent over the lease term.

**(x) Insurance claims and related expense**

*Life insurance contracts*

Life insurance contract claims are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the life insurance contract has been established or upon notification of the insured event, depending on the type of claim.

*Investment contracts*

There is no claims expense in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities. See Note 1(r).



## Notes to the financial statements

for the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

#### (y) Operating expenses

All operating expenses, other than those allocated to life insurance contracts, see Note 1(q), are expensed as incurred.

The majority of investment contracts issued result in payments to external service and advice providers. Where the amount paid equates to a fee charged to policyholders for the provision of advice, the amount is expensed either at inception or over the period of the contract consistent with the basis for recognising the fee revenue on the respective contracts. See Note 1(v).

#### Operating lease payment

Operating lease payments are recognised as an expense in the Statement of comprehensive Income on a straight-line basis over the lease term or other systematic basis representative of the patterns of the benefits obtained. Operating incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

#### (z) Finance costs

Finance costs include:

##### (i) Borrowing costs:

- interest on bank overdrafts and borrowings
- amortisation of discounts or premiums related to borrowings

##### (ii) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

Borrowing costs are recognised as expenses when incurred.

## Notes to the financial statements

for the year ended 31 December 2011

**2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements. Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events. Significant accounting judgements, estimates and assumptions include but are not limited to:

**(a) Fair value of investments in financial assets**

AMP Life measures investments in financial assets at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair value of financial instruments is set out in note 19.

**(b) Fair values of investment properties**

AMP Life measures investment properties at fair value through profit or loss. The valuation of investment properties requires judgement to be applied in selecting appropriate valuation techniques and setting valuation assumptions. AMP Life engages independent registered valuers to value each of its investment properties on a rolling annual basis. Further detail on the determination of fair values of investment properties is set out in note 9.

**(c) Goodwill**

Goodwill is required to be allocated to cash generating units and tested for impairment on an annual basis. Management apply judgement in determining cash generating units and allocating the goodwill arising from business combinations to these cash generating units. Impairment is assessed annually by determining the recoverable amount of each cash generating unit which has a goodwill balance. Management applies judgement in selecting valuation techniques and setting valuation assumptions to determine the recoverable amount. Note 11 sets out further information on the impairment testing of goodwill.

**(d) Tax**

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

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

**(e) Provisions**

A provision is recognised for items where AMP Life has a present obligation arising from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is measured as the best estimate of the expenditure required to settle the present obligation. Management apply judgement in assessing whether a particular item satisfies the above criteria and in determining the best estimate. Note 13 sets out further information on provisions and Note 24 provides information of contingent liabilities.

**(f) Insurance contract liabilities**

The measurement of insurance contract liabilities is determined using the Margin on Services (MoS) methodology. The determination of the liability amounts involves judgement in selecting the valuation methods and profit carriers for each type of business and setting valuation assumptions. The determination is subjective and relatively small changes in assumptions may have a significant impact on the reported profit. The appointed actuary of AMP Life is responsible for these judgements and assumptions. Further detail on the determination of insurance contract liabilities is set out in note 17.

**(g) Investment contract liabilities**

Investment contract liabilities are measured at fair value. For the majority of contracts, the fair value is determined based on published unit prices and do not generally require the exercise of judgement. For fixed income products, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions. Further details on investment contract liabilities are set out in Note 18.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**3. INCOME**

	2011 \$m	2010 \$m
<b>(a) Fee revenue</b>		
Investment contract and origination fees	854	857
Investment management fees		
- related entities	20	25
- associated entities	7	-
- other entities	-	2
Service fees		
- related entities	46	46
<b>Total fee revenue<sup>(1)</sup></b>	<b>927</b>	<b>930</b>
<b>(b) Other revenue</b>		
Other revenue	2	17
<b>Total other revenue</b>	<b>2</b>	<b>17</b>
<b>(c) Investment gains and losses</b>		
Interest revenue <sup>(2)</sup>		
- related entities	139	109
- other entities	609	593
Dividends and distributions		
- related entities	2,693	1,916
- associated entities	229	39
- other entities	773	700
Rental income	163	150
Net realised and unrealised gains / (losses) <sup>(3)</sup>	(4,078)	(132)
Other investment income	15	16
<b>Total investment gains and (losses)</b>	<b>543</b>	<b>3,393</b>

Footnote:

(1) Total fee revenue includes fee income from trust and fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

(2) Interest includes interest income from financial assets measured at fair value through profit or loss, designated as such upon initial recognition.

(3) Net realised and unrealised gains and losses include net gains and losses on financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**4. EXPENSES**

	2011 \$m	2010 \$m
<b>(a) Operating expenses</b>		
Commission and advisor fee-for-service expense	(347)	(333)
Investment management expenses		
- related entities	(218)	(225)
- other entities	(12)	(11)
<b>Fees and commission expenses<sup>(1)</sup></b>	<b>(577)</b>	<b>(569)</b>
Occupancy and property maintenance expenses	9	10
Direct property expenses <sup>(2)</sup>	(50)	(43)
Service fee expense		
- related entities	(652)	(639)
Professional fees	(2)	(2)
Depreciation of property, plant and equipment	(9)	(10)
Other expenses	(61)	(47)
<b>Other operating expenses</b>	<b>(765)</b>	<b>(731)</b>
<b>Total operating expenses</b>	<b>(1,342)</b>	<b>(1,300)</b>
<b>(b) Finance costs</b>		
Interest expense on borrowings		
- other entities	(58)	(29)
Other finance costs	(8)	(4)
<b>Total finance costs</b>	<b>(66)</b>	<b>(33)</b>

Footnote:

(1) Fee and commission expenses include fee expenses from trust and other fiduciary activities that are result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

(2) Direct property expenses relate to investment properties which generate rental income.

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**5. INCOME TAX**

	2011 \$m	2010 \$m
<b>(a) Analysis of income tax (expense) credit</b>		
Current tax	(315)	(224)
Increase (decrease) in deferred tax assets	224	8
(Increase) decrease in deferred tax liabilities	133	54
Over/(under) provided in previous years including amounts attributable to policyholders	1	(14)
Effect of change in overseas tax rate	-	7
<b>Income tax (expense) credit</b>	<b>43</b>	<b>(169)</b>

**(b) Relationship between income tax expense and accounting profit**

The following table provides a reconciliation of differences between prima facie tax calculated as 30 per cent of the profit before income tax for the year and the actual income tax expense recognised in the Statement of comprehensive income for the year. The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders.

In respect of income tax expense attributable to shareholders, the tax rate which applies in Australia is 30 per cent (2010: 30 per cent). From 1 January 2011 the company tax rate for New Zealand changed from 30 per cent to 28 per cent. There are certain differences between the amounts of income and expenses recognised in the financial statements and the amounts recognised for income tax purposes.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15 per cent, and certain classes of income on some annuity business are tax-exempt. The rate applicable to New Zealand life insurance business during the year was 28 per cent (2010: 30 per cent).

	2011 \$m	2010 \$m
<b>Profit before income tax</b>	<b>637</b>	<b>761</b>
Policyholder tax credit / (expense) recognised as part of the change in policyholder liabilities in determining profit before income tax	312	62
<b>Profit before income tax excluding policyholder tax</b>	<b>949</b>	<b>823</b>
Prima facie tax at the rate of 30%	(285)	(247)
Tax effect of differences between recognition of Statement of comprehensive income items for accounting and those deductible/assessable in calculating taxable income:		
Shareholder impact of par-business tax treatment	21	21
Non-deductible expenses	(5)	(6)
Non-taxable income	19	22
Effect of change in overseas tax rate	-	7
Tax offsets and credits	4	4
Other items	(24)	(11)
(Under)/over provided in previous years after excluding amounts attributable to policyholders	(1)	(21)
Differences in overseas tax rate	2	-
<b>Income tax (expense) credit attributable to shareholders</b>	<b>(269)</b>	<b>(231)</b>
<b>Income tax (expense) credit attributable to policyholders</b>	<b>312</b>	<b>62</b>
<b>Income tax (expense) credit per Statement of comprehensive income</b>	<b>43</b>	<b>(169)</b>

**AMP Life Limited**  
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**5. INCOME TAX (CONTINUED)**

	2011 \$m	2010 \$m
<b>(c) Analysis of deferred tax asset</b>		
Expenditure tax deductible and accounting income recognising in future years	78	19
Unrealised movements on borrowings and derivatives	-	7
Unrealised investment losses	102	36
Losses available for offset against future taxable income	366	262
Other	21	22
<b>Total deferred tax assets</b>	<b>567</b>	<b>346</b>
<b>(d) Analysis of deferred tax liability</b>		
Unrealised investment gains	255	402
Deferred tax on New Zealand life insurance policy liabilities	120	97
Unrealised movements on borrowings and derivatives	24	-
Other	5	18
<b>Total deferred tax liability</b>	<b>404</b>	<b>517</b>

**6. RECEIVABLES**

	2011 \$m	2010 \$m
Investment income receivable	123	96
Investment sales and margin accounts receivable	326	51
Life insurance contract premiums receivable	277	271
Reinsurance and other recoveries receivable	10	8
Reinsurers' share of life insurance contract liabilities	98	65
Other receivables		
- related entities	19	17
- associated entities	2	-
- other entities	49	10
<b>Total receivables<sup>(1)</sup></b>	<b>904</b>	<b>518</b>

Footnotes:

(1) \$86m (2010: \$56m) of total receivables is expected to be recovered more than 12 months from reporting date.

**7. OTHER ASSETS**

	2011 \$m	2010 \$m
Prepayments	4	4
<b>Total other assets</b>	<b>4</b>	<b>4</b>

Footnotes:

(1) All other assets are current.

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**8. INVESTMENT IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES**

	2011 \$m	2010 \$m
<b>Investments in financial assets measured at fair value through profit or loss</b>		
Equity securities and listed managed investment schemes	9,798	11,473
Debt securities <sup>(1)</sup>	9,468	12,034
Investments in unlisted managed investment schemes	42,456	41,767
Derivative financial assets	535	466
Other financial assets <sup>(2)</sup>	125	170
<b>Total investments in financial assets measured at fair value through profit or loss</b>	<b>62,382</b>	<b>65,910</b>
<b>Investments in controlled entities</b>		
At fair value	1,464	1,444
At cost	36	28
<b>Total investments in controlled entities</b>	<b>1,500</b>	<b>1,472</b>
<b>Other financial liabilities</b>		
Derivative financial liabilities	107	188
Collateral deposits held <sup>(3)</sup>	637	1,398
<b>Total other financial liabilities</b>	<b>744</b>	<b>1,586</b>

**Footnote:**

(1) Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life statutory funds.

(2) Other financial assets primarily consists of policyholder investments in an external life insurance fund.

(3) Collateral deposits held represents the obligation to repay collateral held in respect of debt security repurchase arrangements entered into by the life statutory funds.

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**9. INVESTMENT PROPERTIES**

	2011 \$m	2010 \$m
<b>Investment property<sup>(1)</sup></b>		
Directly held	1,781	1,703
<b>Total investment property</b>	<b>1,781</b>	<b>1,703</b>
<b>Movements in investment property</b>		
Balance at the beginning of the year	1,703	1,603
Additions		
- subsequent expenditure recognised in carrying amount	14	31
Net gains from fair value adjustments	64	69
<b>Balance at the end of the year</b>	<b>1,781</b>	<b>1,703</b>

Footnotes:

(1) Investment property is measured at fair value with changes in value recognised through profit or loss.

**Valuation of investment property**

Investment property is measured at fair value at each reporting date. Fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.

Fair values of AMP Life's properties are determined by independent registered valuers who have appropriate registered professional qualifications and recent experience in the location and category of the property being valued.

The fair value appraisals are obtained on a rolling annual basis. The valuation schedule may be altered when a property is either undergoing or being appraised for redevelopment, refurbishment or sale, or is experiencing other changes in assets or tenant profiles which may significantly impact value; or when there have been significant changes in the property market and broader economy such as updates to comparable property sales which may have an impact on the individual asset values. The carrying value of each investment property is assessed at reporting date to ensure there has been no material change to the fair value since the valuation date.

The valuers apply 'comparable sales analysis' and the 'capitalised income approach' by reference to annual net market income, comparable capitalisation rates and other property-specific adjustments as well as discounted cash flow analysis where the expected net cash flows are discounted to their present value using a market determined risk adjusted discount rate. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property.

	2011	2010
<b>Primary assumptions used in valuing investment property</b>		
Capitalisation rates	6.0% - 10.25%	6.25% - 9.75%
Market determined, risk adjusted discount rate	9.0% - 13.00%	7% - 10.35%



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**10. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold Improvements \$m	Plant & Equipment \$m	Total \$m
<b>2011</b>			
<b>Property, plant and equipment</b>			
Gross carrying amount	64	66	130
Less: accumulated depreciation and impairment losses	(55)	(53)	(108)
<b>Property, plant and equipment at written down value</b>	<b>9</b>	<b>13</b>	<b>22</b>
<b>Movements in property, plant and equipment</b>			
Balance at the beginning of the year	9	15	24
Additions			
- through direct acquisitions	4	3	7
Depreciation expense for the year	(4)	(5)	(9)
<b>Balance at the end of the year</b>	<b>9</b>	<b>13</b>	<b>22</b>

	Leasehold Improvements \$m	Plant & Equipment \$m	Total \$m
<b>2010</b>			
<b>Property, plant and equipment</b>			
Gross carrying amount	61	64	125
Less: accumulated depreciation and impairment losses	(52)	(49)	(101)
<b>Property, plant and equipment at written down value</b>	<b>9</b>	<b>15</b>	<b>24</b>
<b>Movements in property, plant and equipment</b>			
Balance at the beginning of the year	13	18	31
Additions			
- through direct acquisitions	-	3	3
Depreciation expense for the year	(4)	(6)	(10)
<b>Balance at the end of the year</b>	<b>9</b>	<b>15</b>	<b>24</b>

**AMP Life Limited**  
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**11. INTANGIBLE ASSETS**

	2011	2010
	\$m	\$m
<b>Intangibles</b>		
Gross carrying amount	517	517
Less: accumulated amortisation and / or impairment losses	-	-
<b>Intangibles at written down value</b>	<b>517</b>	<b>517</b>

**Impairment testing of goodwill**

\$517m (2010: \$517m) of the Goodwill arose from a Life Act Part 9 transfer of life insurance business into the statutory funds of AMP Life. The initial amount recognised represented the value of in force business, the value of new business and the benefits of cost synergies obtained as a result of the integration of the business into AMP Life.

The business acquired included activities conducted in the same business units already operated by AMP. Those business units are Australian Contemporary Wealth Management (CWM), Australian Contemporary Wealth Protection (CWP) and Australian Mature and those business units are identified as the cash generating units for the purpose of assessing goodwill impairment.

Under the transition rules for Australian adoption of International Financial Reporting Standards, the amortised cost value of \$517 million at 1 January 2004 was deemed to be the value carried forward and tested annually for impairment. For the purposes of impairment testing, the amount is allocated to the cash generating units as follows:

- Australian CWM – goodwill attributable: \$387m;
- Australian CWP – goodwill attributable: \$65m; and
- Australian Mature – goodwill attributable: \$65m.

There are no other intangible assets with indefinite useful lives allocated to these cash generating units.

The method used for goodwill impairment testing is "fair value less costs to sell". For each cash generating unit the recoverable amount is determined as the sum of the value of in-force business plus the value of one year's new business times a multiplier.

Assumptions applied in estimating the value of in-force business and the value of one year's new business are consistent with the best estimate assumptions used in calculating the policy liabilities of AMP Life except the value of in-force and new business calculation includes a risk discount rate. Note 1(q) and Note 17 provide extensive details with respect to the assumptions, management's approach to determining the values assigned to each key assumption and their consistency with past experience and external sources of information. Note 1(u) discloses that premium and claim amounts are estimated over the expected life of the in-force policies which varies depending on the nature of the product. Note 17 provides details of discontinuance rates used for projections and the fact that future maintenance and investment expenses are based on unit costs derived from budgeted amounts for the following year and increased in future years for expected rates of inflation. The value of in-force and new business calculation uses a risk discount rate based on the zero coupon government bond curve of 3.5% - 4.6% in Australia (2010:5.6%) and 2.5% - 4.1% in New Zealand (2010: 5.7%) plus a 3% margin (2010: 3%).

The conclusion from the goodwill impairment testing is that there has been no impairment to the amount of the goodwill recognised and there is no reasonably possible change in key assumptions that could cause the carrying amount to exceed the recoverable amount.

**AMP Life Limited**  
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**12. PAYABLES**

	2011	2010
	\$m	\$m
<b>Payables</b>		
Investment purchases payable	44	13
Life insurance and investment contracts in process of settlement	216	181
Accrued expenses	21	22
Interest payable		
- other entities	2	-
Other payables		
- related entities	57	74
- other entities	370	385
<b>Total payables<sup>(1)</sup></b>	<b>710</b>	<b>675</b>

Footnote:

(1) All payables are current (2010: nil are non-current).

**13. PROVISIONS**

	2011	2010
	\$m	\$m
<b>Provisions</b>		
Systems and other project expenditures	1	7
<b>Total provisions<sup>(1)</sup></b>	<b>1</b>	<b>7</b>

	2011	2010
	\$m	\$m
<b>Movements in provisions</b>		
Balance at the beginning of the year	7	18
Additional provisions made during the year	6	9
Unused amounts reversed during the year	(2)	(6)
Payments/other sacrifices of economic benefits	(10)	(14)
<b>Balance at the end of the year</b>	<b>1</b>	<b>7</b>

Footnotes:

(1) All provisions are current (2010: nil are non-current).

**14. BORROWINGS**

	2011	2010
	\$m	\$m
<b>Borrowings</b>		
Deposits		
- other entities	127	139
Other borrowings		
- related parties	446	448
<b>Total borrowings<sup>(1)</sup></b>	<b>573</b>	<b>587</b>

Footnote:

(1) All borrowings are current (2010: nil are non-current).

**AMP Life Limited**  
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**15. DIVIDENDS**

	2011 \$m	2010 \$m
<b>Dividends paid during the year</b>		
Unfranked dividend of \$37.74 (31 December 2010: \$32.91) per ordinary share	(430)	(375)
<b>Total dividends paid</b>	<b>(430)</b>	<b>(375)</b>

**16. CONTRIBUTED EQUITY**

Holders of ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Fully paid ordinary shares carry the right to one vote per share. Ordinary shares have no par value.

	2011 \$m	2010 \$m
<b>Contributed equity</b>		
Balance at the beginning of the year	1,091	1,091
11,393,668 (31 December 2010: 11,393,668) ordinary shares fully paid		
<b>Total balance of contributed equity at the end of the year</b>	<b>1,091</b>	<b>1,091</b>

**AMP Life Limited**  
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**17. LIFE INSURANCE CONTRACTS**

	2011 \$m	2010 \$m
<b>(a) Analysis of life insurance contract premium and related revenue</b>		
Total life insurance contract premiums received and receivable	1,795	1,802
Less: component recognised as a change in life insurance contract liabilities	(693)	(751)
Life insurance contract premium revenue <sup>(1)</sup>	1,102	1,051
Reinsurance recoveries	38	49
<b>Total life insurance contract premium and related revenue</b>	<b>1,140</b>	<b>1,100</b>
<b>(b) Analysis of life insurance contract claims and related expenses</b>		
Total life insurance contract claims paid and payable	(2,245)	(2,344)
Less: component recognised as a change in life insurance contract liabilities	1,059	1,103
Life insurance contract claims expense	(1,186)	(1,241)
Outwards reinsurance expense	(42)	(48)
<b>Total life insurance contract claims and related expenses</b>	<b>(1,228)</b>	<b>(1,289)</b>
<b>(c) Analysis of life insurance contract operating expenses</b>		
Life insurance contract acquisition expenses		
- Commission	(58)	(58)
- Other	(88)	(88)
Life insurance contract maintenance expenses		
- Commission	(95)	(91)
- Other	(202)	(286)
Investment management expenses	(41)	(39)

**Footnote:**

(1) Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.

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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

	2011 \$m	2010 \$m
<b>(d) Life insurance contract liabilities</b>		
<b>Life insurance contract liabilities determined using projection method</b>		
Best estimate liability		
- value of future life insurance contract benefits	12,339	10,765
- value of future expenses	3,132	2,697
- value of future premiums	(11,479)	(9,595)
Value of future profits		
- life insurance contract holder bonuses	1,657	2,021
- shareholders' profit margins	2,554	2,439
<b>Total life insurance contract liabilities determined using the projection method</b>	<b>8,203</b>	<b>8,327</b>
<b>Life insurance contract liabilities determined using the accumulation method</b>		
Best estimate liability		
- Value of future life insurance contract benefits	7,447	7,664
- Value of future acquisition expenses	(7)	(9)
<b>Total life insurance contract liabilities determined using the accumulation method</b>	<b>7,440</b>	<b>7,655</b>
Value of declared bonus	338	338
Unvested life insurance contract holder benefits <sup>(1)</sup>	1,266	1,377
<b>Total life insurance contract liabilities before reinsurance</b>	<b>17,247</b>	<b>17,697</b>
Add: Reinsurers' share of life insurance contract liabilities	98	65
<b>Total life insurance contract liabilities per the Statement of financial position</b>	<b>17,345</b>	<b>17,762</b>

**Footnotes:**

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

**AMP Life Limited**  
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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

	Note	2011 \$m	2010 \$m
<b>(e) Reconciliation of changes in life insurance contract liabilities</b>			
Total life insurance contract liabilities at the beginning of the year		17,762	18,380
Change in life insurance contract liabilities recognised in the statement of comprehensive income		(82)	(202)
Premiums recognised as an increase in life insurance contract liabilities	17(a)	693	751
Claims recognised as a decrease in life insurance contract liabilities	17(b)	(1,059)	(1,103)
Change in reinsurers' share of life insurance contract liabilities		32	21
Foreign exchange adjustment		(1)	(85)
<b>Total life insurance contract liabilities at the end of the year</b>	<b>17(d)</b>	<b>17,345</b>	<b>17,762</b>

**(f) Assumptions and methodology applied in the valuation of life insurance contract liabilities**

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to Note 1(s) for a description of MoS and the methods for calculating life insurance contract liabilities.

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

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment Account	Modified Accumulation	N/A
Risk (lump sum)	Projection / Accumulation	Expected premiums
Risk (income benefits)	Projection/Accumulation	Expected claims
Participating Allocated Annuities	Accumulation / Modified Accumulation	N/A
Life Annuities	Projection	Annuity payments

Key assumptions used in the calculation of life insurance contract liabilities are as follows:

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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

*(i) Risk free discount rates*

Except where benefits are contractually linked to the performance of the assets held, a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations is used. The rates are determined as shown in the following table <sup>(1)</sup>.

Business Type	Basis	31 December 2011		31 December 2010	
		Australia	New Zealand	Australia	New Zealand
Retail risk (other than income protection open claims)	10 year government bond rate	n/a	n/a	5.6%	6.0%
	Zero coupon government bond curve	3.2% - 4.6%	2.5% - 4.1%	n/a	n/a
Group and retail (Income protection open claims) risk	2 year government bond rate	n/a	n/a	5.2%	n/a
	10 year government bond rate (+30bps for NZ 2011)	n/a	4.1%	n/a	6.0%
	Zero coupon government rate bond curve (+55bps for Aus 2011)	3.8% - 5.2%	n/a	n/a	n/a
Life annuities	Non-CPI	Zero coupon inter-bank swap curve	n/a	4.9% - 6.3%	3.1% - 6.0%
	CPI	Commonwealth indexed Bond curve (+ 20 bps for 2010 and +70bps for Aus and +40bps for NZ 2011)	1.5% - 2.2%	2.8% - 3.0%	2.8%

**Footnote:**

(1) The basis of the risk free discount rates for Risk products has changed from a single bond rate to a bond curve during 2011 as part of the alignment of economic assumptions used by AMP Life and The National Mutual Life Association of Australasia Limited (NMLA).



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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

*(ii) Participating business discount rates*

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

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

	10 Year Government Bonds	Local equities	International equities	Property	Fixed Interest	Cash
<b>Australia</b>						
31 December 2011	3.7%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2010	5.5%	4.1%	2.5%	2.0%	0.5%	(0.5%)
<b>New Zealand</b>						
31 December 2011	3.8%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2010	6.0%	4.5%	2.5%	2.0%	0.5%	(0.5%)

The risk premia for local equities includes allowance for imputation credits. The risk premia for fixed interest reflects credit ratings of the portfolio held.

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

	Equities	Property	Fixed Interest	Cash
<b>Australia</b>				
31 December 2011	30%	11%	39%	20%
31 December 2010	30%	11%	39%	20%
<b>New Zealand</b>				
31 December 2011	40%	17%	37%	6%
31 December 2010	40%	17%	37%	6%

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

*(iii) Future participating benefits*

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

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

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

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

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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

(iii) *Future participating benefits (continued)*

Typical supportable bonus rates on major product lines are as follows (31 December 2010 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	0.2% - 0.8% (0.7% - 1.1%)	0.4% - 0.8% (1.1% - 1.3 %)
New Zealand	0.3% - 0.5% (0.8% - 1.1%)	0.3% - 0.5% (0.8% - 1.1%)

**Terminal bonus**

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

**Crediting rates (Investment account)**

Australia	1.5% - 3.8% (2.8% - 8.0%)
New Zealand	2.4% - 2.9% (3.5% - 4.0%)

(iv) *Future maintenance and investment expenses*

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

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

(v) *Inflation and Indexation*

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

The assumptions for expense inflation have regard to these rates, recent expense performance, AMP Life's current plans and the terms of the relevant service company agreement, as appropriate.

The assumed annual inflation and indexation rates at the valuation date are:

	Australia	New Zealand
31 December 2011	2.6% CPI, 3.0% Expenses	2.5% CPI, 3.0% Expenses
31 December 2010	2.9% CPI, 3.0% Expenses	3.3% CPI, 3.0% Expenses

(vi) *Bases of taxation*

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

(vii) *Voluntary discontinuance*

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

Future rates of discontinuance used at 31 December 2011 are unchanged from those assumed at 31 December 2010.

Future rates of discontinuance for the major classes of life insurance contracts are assumed to be as shown in the table below.

Business type	31 December 2011		31 December 2010	
	Australia	New Zealand	Australia	New Zealand
Conventional	2.1% - 3.0%	1.3% - 2.5%	2.1% - 3.0%	1.3% - 2.5%
Investment account	n/a	n/a	n/a	n/a
Retail risk	10.5% - 11.0%	10.5% - 12.0%	10.5% - 11.0%	10.5% - 12.0%
FLS risk business (ultimate rate)	7.5% - 9.0%	n/a	7.5% - 9.0%	n/a

**AMP Life Limited**  
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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

*(viii) Surrender values*

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

*(ix) Mortality and morbidity*

Standard mortality tables, based on national or industry wide data, are used (e.g. IA95-97 and IM(F)L00 in Australia and New Zealand). These are then adjusted by factors that take account of AMP Life's own experience, primarily over the past three years. For annuity business, adjustment is also made for mortality improvements prior to and after the valuation date.

Rates of mortality assumed at 31 December 2011 are unchanged from those assumed at 31 December 2010 in Australia and New Zealand, except for:

- Australian conventional business – reduced from 75% to 67.5% of IA95-97
- Annuitant mortality – base mortality table (prior to amendment for some specific AMP experience) changed from IM80/IF80 to IM00/IF00.

Typical mortality assumptions, in aggregate, are as follows:

Risk products	Conventional - % of IA95-97		Term - % of IA95-97		FLS Risk - % of IA95-97	
	Male	Female	Male	Female	Male	Female
Australia	67.5%	67.5%	63%	63%	63%	63%
New Zealand	73%	73%	63%	63%	63%	63%

Annuitants	Male - % of IML00*	Female - % of IFL00*
Australia & New Zealand	95%	80%

For disability income business, the claim assumptions are currently based on IAD89-93, which is derived from Australian experience. It is adjusted for AMP Life's experience, with the adjustment dependent on age, sex, waiting period, occupation, smoking status and claim duration. Incidence and termination rates have both changed for Australia and New Zealand from those at 31 December 2010.

Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates - % of IAD89-93	Termination rates (ultimate) - % of IAD 89-93
Australia	87%	94%
New Zealand	60%	90%

For trauma cover, standard tables are not available and so assumptions are mostly based on Australian population statistics, with adjustment for smoking status as well as AMP Life's recent claim experience. Assumptions at 31 December 2011 are unchanged from those used at 31 December 2010.

The Actuarial tables used were as follows:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995–1997.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999–2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation.  IML00* and IFL00* are these published tables amended for some specific AMP experience.
IAD89-93	A disability table developed by the Institute of Actuaries of Australia based on Australian disability income experience from 1989–1993.

**AMP Life Limited**  
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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

*(x) Impact of changes in assumptions*

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

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2010 to 31 December 2011 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below.

Assumption change	Change in future profit margins \$m	Change in life insurance contract liabilities \$m	Change in shareholders' profit & equity \$m
Non-market related changes to discount rates <sup>(1)</sup>	(111)	1	1
Mortality and morbidity	(32)	-	-
Discontinuance rates	-	-	-
Maintenance expenses	(11)	-	-
Other assumptions <sup>(2)</sup>	32	-	-

**Footnote:**

(1) The change in future profit margins reflects impact of moving the risk discount rate from the 10 year government bond rate to zero coupon government bond curve as per note 17(i)(g).

(2) Other assumptions changes include the impact of actual and planned premium rate changes.

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

**(g) Insurance risk sensitivity analysis – life insurance contracts**

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

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

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax, and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
Mortality	10% increase in mortality rates	(1)	(1)	1	1
Annuitant mortality	50% increase in the rate of mortality improvement	1	1	(1)	(1)
Morbidity – lump sum disablement	20% increase in lump sum disablement rates	-	-	-	-
Morbidity – disability income	10% increase in incidence rates	-	-	-	-
Morbidity- disability income	10% decrease in recovery rates	-	-	-	-
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	-	-	-

**AMP Life Limited**  
**Notes to the financial statements**  
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**17. LIFE INSURANCE CONTRACTS (CONTINUED)**

**(h) Life Insurance risk**

The life insurance activities of AMP Life involve a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders, often in conjunction with the provision of wealth-management products.

The design of products carrying insurance risk is managed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave AMP Life open to claims from causes that were not anticipated. Product prices are set through a process of financial analysis, including review of previous AMP Life and industry experience and specific product design features. The variability inherent in insurance risk including concentration risks is managed by having a large portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Individual policies which are transferred from a group scheme are generally issued without underwriting. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

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

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

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses.

The specialist reinsurance companies are regulated by APRA or industry regulators in other jurisdictions and have strong credit ratings from A- to AA+.

## Notes to the financial statements

for the year ended 31 December 2011

## 17. LIFE INSURANCE CONTRACTS (CONTINUED)

*Terms and conditions of life insurance contracts*

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)</i>	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of AMP Life. Premium rates for yearly renewable business are not guaranteed and may be changed at AMP Life's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is generally allocated 80:20% between the policyholders and shareholder in accordance with the <i>Life Act</i> . The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as bonuses.	Market earning rates on assets backing the liabilities, interest rates, lapses, expenses, and mortality.
<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and shareholders in accordance with the <i>Life Act</i> . The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities, interest rates.

## (i) Liquidity risk and future net cash outflows

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

	Up to 1 Year \$m	1 to 5 Years \$m	Over 5 Years \$m	Total \$m
2011	747	2,024	6,184	8,955
2010	903	2,416	5,420	8,739

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES**

	2011 \$m	2010 \$m
<b>(a) Analysis of life insurance and investment contract profit</b>		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	374	410
- Profits (losses) arising from difference between actual and assumed experience	106	18
- Capitalised (losses) reversals	1	1
<b>Profit related to life insurance and investment contract liabilities</b>	<b>481</b>	<b>429</b>
Attributable to:		
- Life insurance contracts	343	254
- Investment contracts	138	175
<b>Investment earnings on assets in excess of life insurance and investment contract liabilities</b>	<b>101</b>	<b>90</b>

**(b) Restrictions on assets**

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

	2011 \$m	2010 \$m
<b>(c) Capital guarantees</b>		
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,493	13,758
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1,166	1,101
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	124	131

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

**(d) Solvency and capital adequacy**

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These prudential reserving requirements are specified by the *Life Act* and accompanying prudential standards. AMP Life holds additional amounts of reserves to provide a higher level of security for policyholder benefits than would be achieved by holding the statutory minimum.

Under the *Life Act*, there are two requirements for each life statutory fund:

- the solvency requirement; and
- the capital adequacy requirement.

*Solvency requirements*

The solvency requirement is the absolute minimum that must be satisfied for the business to be allowed to continue to operate. Its purpose is to ensure, as far as practicable, that at any time the fund will be able to meet all existing life insurance contract liabilities, investment contract liabilities and other liabilities as they become due.

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded the solvency reserve required at all times during the reporting period. Across all the life statutory funds, the excess assets, expressed as a percentage of the solvency reserve, at 31 December 2011 was 62 per cent (31 December 2010 – 71 per cent).

*Capital adequacy requirements*

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for the life entity to be allowed to make distributions to its shareholders and to operate without regulatory intervention. Its purpose is to ensure, as far as practicable, that there is sufficient capital in each life statutory fund for the continued conduct of the life insurance business, including writing new business, in a way which is in the interests of policyholders and in accordance with the *Life Act*.

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded the capital adequacy reserve required at all times during the reporting period. For this purpose, the capital adequacy reserve is defined as the solvency reserve, plus the difference between the capital adequacy requirement and the solvency requirement. Across all the life statutory funds, the excess assets, expressed as a percentage of the capital adequacy reserve, as at 31 December 2011 was 34 per cent (31 December 2010: 36 per cent).



**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

Distribution of retained profits, including shareholder's *Life Act* capital, is limited by prudential capital requirements of the *Life Act*, the detailed provisions of which are specified by actuarial standards. The solvency standard prescribes a minimum capital requirement, the *solvency requirement*, for each statutory fund of the company. The figures below are shown net of reinsurance on a basis consistent with the calculation of these ratios in the APRA returns. The solvency requirements are as follows:

		No 1 Statutory fund \$m	No 2 Statutory fund \$m	No 3 Statutory fund \$m	Total Statutory Funds \$m
<b>2011</b>					
<b>Solvency requirement</b>					
Net Minimum Termination Value (MTV)		19,260	43,528	620	63,407
Adjusted Other liabilities		2,332	1,291	44	3,668
Solvency reserve	B	2,145	145	1	2,292
<b>Total solvency requirement</b>	<b>A</b>	<b>23,737</b>	<b>44,964</b>	<b>665</b>	<b>69,366</b>
<b>Assets available for solvency</b>					
Net assets		1,740	326	5	2,071
Liability for Unvested Policy Owner Benefits		1,267	-	-	1,267
Excess of net policy liabilities (including policy owner bonuses) over MTV		361	12	-	373
<b>Total assets available for solvency</b>	<b>C</b>	<b>3,367</b>	<b>338</b>	<b>5</b>	<b>3,711</b>
Solvency Reserve %	B/(A-B)*100	9.9%	0.3%	0.2%	3.4%
Coverage of Solvency Reserve	C/B	1.6	2.3	4.1	1.6
<b>2010</b>					
<b>Solvency requirement</b>					
Net Minimum Termination Value (MTV)		18,342	45,130	713	64,185
Adjusted Other liabilities		1,805	1,587	73	3,465
Solvency reserve	B	2,075	204	3	2,282
<b>Total solvency requirement</b>	<b>A</b>	<b>22,222</b>	<b>46,921</b>	<b>789</b>	<b>69,932</b>
<b>Assets available for solvency</b>					
Net assets		1,476	339	5	1,820
Liability for Unvested Policy Owner Benefits		1,376	-	-	1,376
Excess of net policy liabilities (including policy owner bonuses) over MTV		638	74	2	714
<b>Total assets available for solvency</b>	<b>C</b>	<b>3,490</b>	<b>413</b>	<b>7</b>	<b>3,910</b>
Solvency Reserve %	B/(A-B)*100	10.3%	0.4%	0.3%	3.4%
Coverage of Solvency Reserve	C/B	1.7	2.0	2.5	1.7

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

**(e) Actuarial Information**

Mr Rocco Mangano, as the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the Financial Report and in the tables in this Note and Note 17.

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

**(f) Amounts expected to be recovered or settled no more than 12 months after the reporting date**

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately \$10,149 million (2010: \$9,764 million) of policy liabilities may be settled within 12 months from the reporting date.

**(g) Disaggregated Information**

The Life Act requires the life insurance business of AMP Life to be conducted within statutory funds that are separate to the AMP Life shareholder's fund. The financial statements of AMP Life (which are lodged with the relevant Australian regulators) disclose all major components of the financial statements disaggregated between the various life insurance statutory funds and the shareholder's fund, as well as by investment-linked and non-investment-linked business.

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated Information (continued)

(i) Income statement by statutory fund and shareholders' fund

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2011</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
Insurance premium and related revenue	1,140	-	-	-	1,140
Fee revenue	43	827	11	46	927
Other revenue	1	1	-	-	2
Investment gains and (losses)	1,598	(1,067)	(17)	29	543
Insurance claims and related expenses	(1,228)	-	-	-	(1,228)
Operating expenses	(628)	(706)	(7)	(1)	(1,342)
Finance costs	(65)	(1)	-	-	(66)
Change in policyholder liabilities					
- Life insurance contract liabilities	82	-	-	-	82
- Investment contract liabilities	(179)	710	8	-	539
Gain on sale of a controlled entity	-	-	-	40	40
<b>Profit / (loss) before income tax</b>	<b>764</b>	<b>(236)</b>	<b>(5)</b>	<b>114</b>	<b>637</b>
Income tax (expense) / credit	(327)	376	10	(16)	43
<b>Net profit for the year</b>	<b>437</b>	<b>140</b>	<b>5</b>	<b>98</b>	<b>680</b>

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2010</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
Insurance premium and related revenue	1,100	-	-	-	1,100
Fee revenue	43	828	12	47	930
Other revenue	2	15	-	-	17
Investment gains and (losses)	1,228	2,076	46	43	3,393
Insurance claims and related expenses	(1,289)	-	-	-	(1,289)
Operating expenses	(617)	(678)	(9)	4	(1,300)
Finance costs	(16)	(15)	(2)	-	(33)
Change in policyholder liabilities					
- Life insurance contract liabilities	202	-	-	-	202
- Investment contract liabilities	(134)	(2,102)	(23)	-	(2,259)
<b>Profit before income tax</b>	<b>519</b>	<b>124</b>	<b>24</b>	<b>94</b>	<b>761</b>
Income tax (expense) / credit	(175)	40	(14)	(20)	(169)
<b>Net profit for the year</b>	<b>344</b>	<b>164</b>	<b>10</b>	<b>74</b>	<b>592</b>

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated information (continued)

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Elimina- tions \$m	Total \$m
<b>2011</b>						
<b>Assets</b>						
Investments in financial assets measured at fair value through profit or loss	19,324	42,093	638	362	(35)	62,382
Investment property	130	1,651	-	-	-	1,781
Investments in controlled entities	1,241	220	3	36	-	1,500
Other assets	4,180	695	29	731	(345)	5,290
<b>Total assets of policyholders and the shareholder</b>	<b>24,875</b>	<b>44,659</b>	<b>670</b>	<b>1,129</b>	<b>(380)</b>	<b>70,953</b>
<b>Liabilities</b>						
Life insurance contract liabilities	17,345	-	-	-	-	17,345
Investment contract liabilities	3,640	43,539	620	-	-	47,799
Other liabilities	2,150	794	45	7	(380)	2,616
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,135</b>	<b>44,333</b>	<b>665</b>	<b>7</b>	<b>(380)</b>	<b>67,760</b>
<b>Net assets of AMP Life Limited</b>	<b>1,740</b>	<b>326</b>	<b>5</b>	<b>1,122</b>	<b>-</b>	<b>3,193</b>
<b>Equity</b>						
Contributed equity	303	285	-	503	-	1,091
Reserves	(34)	-	-	(15)	-	(49)
Retained earnings	1,471	41	5	634	-	2,151
<b>Total equity of AMP Life Limited</b>	<b>1,740</b>	<b>326</b>	<b>5</b>	<b>1,122</b>	<b>-</b>	<b>3,193</b>

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated Information (continued)

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Elimin- ations \$m	Total \$m
<b>2010</b>						
<b>Assets</b>						
Investments in financial assets measured at fair value through profit or loss	20,560	44,276	720	388	(34)	65,910
Investment property	121	1,582	-	-	-	1,703
Investments in controlled entities	1,216	225	3	28	-	1,472
Other assets	2,937	465	25	727	(391)	3,763
<b>Total assets of policyholders and the shareholder</b>	<b>24,834</b>	<b>46,548</b>	<b>748</b>	<b>1,143</b>	<b>(425)</b>	<b>72,848</b>
<b>Liabilities</b>						
Life insurance contract liabilities	17,762	-	-	-	-	17,762
Investment contract liabilities	2,660	45,205	715	-	-	48,580
Other liabilities	2,936	1,004	28	19	(425)	3,562
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,358</b>	<b>46,209</b>	<b>743</b>	<b>19</b>	<b>(425)</b>	<b>69,904</b>
<b>Net assets of AMP Life Limited</b>	<b>1,476</b>	<b>339</b>	<b>5</b>	<b>1,124</b>	<b>-</b>	<b>2,944</b>
<b>Equity</b>						
Contributed equity	303	285	-	503	-	1,091
Reserves	(33)	-	-	(15)	-	(48)
Retained earnings	1,206	54	5	636	-	1,901
<b>Total equity of AMP Life Limited</b>	<b>1,476</b>	<b>339</b>	<b>5</b>	<b>1,124</b>	<b>-</b>	<b>2,944</b>

**AMP Life Limited**  
**Notes to the financial statements**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

**(g) Disaggregated information (continued)**

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2011</b>					
Opening retained earnings	1,206	54	5	636	1,901
Net profit for the year	437	140	5	98	680
Transfers between statutory and shareholders' funds	(172)	(153)	(5)	330	-
Dividends paid	-	-	-	(430)	(430)
<b>Closing retained earnings</b>	<b>1,471</b>	<b>42</b>	<b>5</b>	<b>635</b>	<b>2,151</b>

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2010</b>					
Opening retained earnings	1,222	45	6	411	1,684
Net profit for the year	344	164	10	74	592
Transfers between statutory and shareholders' funds	(360)	(155)	(11)	526	-
Dividends paid	-	-	-	(375)	(375)
<b>Closing retained earnings</b>	<b>1,206</b>	<b>54</b>	<b>5</b>	<b>636</b>	<b>1,901</b>

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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated information (continued)

(iv) Income statement by non-investment linked and investment linked

	Non- Investment Linked \$m	Investment Linked \$m	Total Statutory Funds \$m	Share- holders' Fund \$m	Total \$m
<b>2011</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
Insurance premium and related revenue	1,140	-	1,140	-	1,140
Fee revenue	41	840	880	46	927
Other revenue	1	1	2	-	2
Investment gains and (losses)	1,598	(1,084)	514	29	543
Insurance claims and related expenses	(1,228)	-	(1,228)	-	(1,228)
Operating expenses	(627)	(714)	(1,341)	(1)	(1,342)
Finance costs	(65)	(1)	(66)	-	(66)
Change in policyholder liabilities					
- Life insurance contract liabilities	82	-	82	-	82
- Investment contract liabilities	(179)	718	539	-	539
Gain on sale of a controlled entity	-	-	-	40	40
<b>Profit / (loss) before income tax</b>	<b>763</b>	<b>(240)</b>	<b>523</b>	<b>114</b>	<b>637</b>
Income tax (expense) / credit	(326)	385	59	(16)	43
<b>Net profit for the year</b>	<b>437</b>	<b>145</b>	<b>582</b>	<b>98</b>	<b>680</b>

	Non- Investment Linked \$m	Investment Linked \$m	Total Statutory Funds \$m	Share- holders' Fund \$m	Total \$m
<b>2010</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
Insurance premium and related revenue	1,100	-	1,100	-	1,100
Fee revenue	41	842	884	47	930
Other revenue	2	15	17	-	17
Investment gains and (losses)	1,221	2,129	3,349	43	3,393
Insurance claims and related expenses	(1,289)	-	(1,289)	-	(1,289)
Operating expenses	(617)	(687)	(1,304)	4	(1,300)
Finance costs	(16)	(17)	(33)	-	(33)
Change in policyholder liabilities					
- Life insurance contract liabilities	202	-	202	-	202
- Investment contract liabilities	(127)	(2,132)	(2,259)	-	(2,259)
<b>Profit before income tax</b>	<b>517</b>	<b>150</b>	<b>667</b>	<b>94</b>	<b>761</b>
Income tax (expense) / credit	(174)	25	(149)	(20)	(169)
<b>Net profit for the year</b>	<b>343</b>	<b>175</b>	<b>518</b>	<b>74</b>	<b>592</b>

**AMP Life Limited**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated information (continued)

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

	Non- Investment Linked \$m	Investment Linked \$m	Total Statutory Funds \$m	Share- holders' Fund \$m	Elim \$m	Total \$m
<b>2011</b>						
<b>Assets</b>						
Investments in financial assets measured at fair value through profit or loss	19,231	42,824	62,055	362	(35)	62,382
Investment property	130	1,651	1,781	-	-	1,781
Investments in controlled entities	1,185	279	1,464	36	-	1,500
Other assets	4,160	744	4,904	731	(345)	5,290
<b>Total assets of policyholders and the shareholder</b>	<b>24,706</b>	<b>45,498</b>	<b>70,204</b>	<b>1,129</b>	<b>(380)</b>	<b>70,953</b>
<b>Liabilities</b>						
Life insurance contract liabilities	17,345	-	17,345	-	-	17,345
Investment contract liabilities	3,553	44,246	47,799	-	-	47,799
Other liabilities	2,067	922	2,989	7	(380)	2,616
<b>Total liabilities of policyholders and the shareholder</b>	<b>22,965</b>	<b>45,168</b>	<b>68,133</b>	<b>7</b>	<b>(380)</b>	<b>67,760</b>
<b>Net assets of AMP Life Limited</b>	<b>1,741</b>	<b>330</b>	<b>2,071</b>	<b>1,122</b>	<b>-</b>	<b>3,193</b>
<b>Equity</b>						
Contributed equity	303	285	588	503	-	1,091
Reserves	(32)	(2)	(34)	(15)	-	(49)
Retained earnings	1,470	47	1,517	634	-	2,151
<b>Total equity of AMP Life Limited</b>	<b>1,741</b>	<b>330</b>	<b>2,071</b>	<b>1,122</b>	<b>-</b>	<b>3,193</b>



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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated information (continued)

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

	Non- Investment Linked \$m	Investment Linked \$m	Total Statutory Funds \$m	Share- holders' Fund \$m	Elim \$m	Total \$m
<b>2010</b>						
<b>Assets</b>						
Investments in financial assets measured at fair value through profit or loss	20,467	45,089	65,556	388	(34)	65,910
Investment property	121	1,582	1,703	-	-	1,703
Investments in controlled entities	1,161	283	1,444	28	-	1,472
Other assets	2,995	432	3,428	727	(391)	3,763
<b>Total assets of policyholders and the shareholder</b>	<b>24,744</b>	<b>47,386</b>	<b>72,130</b>	<b>1,143</b>	<b>(425)</b>	<b>72,848</b>
<b>Liabilities</b>						
Life insurance contract liabilities	17,762	-	17,762	-	-	17,762
Investment contract liabilities	2,563	46,017	48,580	-	-	48,580
Other liabilities	2,944	1,024	3,969	19	(425)	3,562
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,269</b>	<b>47,041</b>	<b>70,310</b>	<b>19</b>	<b>(425)</b>	<b>69,904</b>
<b>Net assets of AMP Life Limited</b>	<b>1,475</b>	<b>345</b>	<b>1,820</b>	<b>1,124</b>	<b>-</b>	<b>2,944</b>
<b>Equity</b>						
Contributed equity	303	285	588	503	-	1,091
Reserves	(31)	(2)	(33)	(15)	-	(48)
Retained earnings	1,203	62	1,265	636	-	1,901
<b>Total equity of AMP Life Limited</b>	<b>1,475</b>	<b>345</b>	<b>1,820</b>	<b>1,124</b>	<b>-</b>	<b>2,944</b>

**AMP Life Limited**  
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**18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)**

(g) Disaggregated information (continued)

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

	Non- Investment Linked	Investment Linked	Total Statutory Funds	Shareholders' Fund	Total
	\$m	\$m	\$m	\$m	\$m
<b>2011</b>					
Opening retained earnings	1,203	62	1,265	636	1,901
Net profit for the year	437	145	582	98	680
Transfers between statutory and shareholders' funds	(172)	(158)	(330)	330	-
Transfers between statutory funds	2	(2)	-	-	-
Dividends paid	-	-	-	(430)	(430)
<b>Closing retained earnings</b>	<b>1,469</b>	<b>47</b>	<b>1,517</b>	<b>634</b>	<b>2,151</b>

	Non- Investment Linked	Investment Linked	Total Statutory Funds	Shareholders' Fund	Total
	\$m	\$m	\$m	\$m	\$m
<b>2010</b>					
Opening retained earnings	1,219	54	1,273	411	1,684
Net profit for the year	343	175	518	74	592
Transfers between statutory and shareholders' funds	(359)	(167)	(526)	526	-
Dividends paid	-	-	-	(375)	(375)
<b>Closing retained earnings</b>	<b>1,203</b>	<b>62</b>	<b>1,265</b>	<b>636</b>	<b>1,901</b>

## 19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

### Financial Risk Management

AMP Life's risk management is carried out in accordance with the policies set by the AMP Limited Board for management of the risks within the AMP group.

The principal objective of AMP Group Financial Risk Management (FRM) framework is to ensure the existence of a robust structure for identifying, assessing, measuring, managing and escalating risks. The FRM Framework operates under the AMP Group risk appetite statement that includes consideration of risk to capital and risk to earnings.

FRM in the AMP Group is managed in accordance with policies set by the AMP Limited Board (the Board). These policies are set out in the FRM Framework and this provides a structure for managing financial risks including delegations, escalations and reporting. The FRM Framework also outlines AMP Group's FRM objectives and identifies organisational responsibilities for the implementation of the FRM Framework. In addition, the FRM Framework provides an overview of each of the key financial risks including the nature of the risks, objectives in seeking to manage the risks, the key policy variables for the management of the risks and the business unit responsibility for managing and reporting the risks.

The Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and that it is operating effectively. This includes approval of the FRM Framework and its sub-policies, the shareholder capital investment strategy, capital and financing plans, approval of transactions outside the FRM Framework and setting the financial risk appetite. The AMP Limited Audit Committee (AMP AC) ensures the existence of effective FRM policies and procedures, and oversight of the execution of the FRM Framework. The AMP Life Audit Committee is delegated this responsibility for the elements specific to its respective business.

Executive Committees oversee the management and monitoring of financial risks and capital management. These Committees include Group Asset and Liability Committee (Group ALCO) for AMP Group and AFS ALCO for AMP Life. The Debt Committee, a sub-committee of Group ALCO, also reviews and monitors debt financing risk across the AMP Group. These Executive Committees report to the respective Audit Committees and Boards.

AMP Group Treasury (Group Treasury) is responsible for the execution of the FRM Framework and capital and financing plans in compliance with Board approved targets and limits. Group Treasury is also responsible for the execution of the approved investment strategy for AMP shareholder capital, for analysis and reporting of financial risks and capital position to Group ALCO, AMP AC and the Board, and monitoring compliance with the FRM Framework in relation to FRM and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the Board.

Internal Audit checks for compliance with the FRM Framework as part of its ongoing audit cycle. Internal Audit is required to review the effectiveness of the FRM Framework and report to the AMP AC.

The directors and boards of AMP Life Limited are required to comply with the Board approved risk appetite. The AMP Life Limited controlled operating entities are also responsible for approving policyholder asset and liability strategy, allocating subsidiary shareholder capital investment and for reporting to the AMP Life AC and Life ALCO on financial risks.

The Appointed Actuary is responsible for reporting to the AMP Life Board, AMP Life AC, AMP AC, Group ALCO, AFS ALCO, as well as externally to APRA on the financial condition of AMP Life including solvency, capital adequacy and target surplus. The Appointed Actuary is also responsible for giving advice to AMP Life on distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. The Life Insurance Act (Life Act) also imposes obligations on the Appointed Actuary to bring to the attention of AMP Life, or in some circumstances, APRA, any matter that the Appointed Actuary believes requires action to avoid prejudice to the interests of policyholders.

Information about the AMP Life's capital management activities, including the relationship with regulatory requirements on the regulated entities, within the AMP group is provided in Note 20.

### (a) Risks and mitigation

For the purposes of the FRM Framework, risk management involves decisions made about the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes.

Financial risk in AMP Life is managed by reference to the probability of loss relative to expected income over a one-year time horizon at a 90 per cent confidence level (Profit at risk). In respect of investments held in the shareholder fund and in the life statutory funds, the loss tolerance over the discretionary investments is set at a low level because AMP Life has equity market exposure in its businesses (for example through fees on Assets Under Management).

Financial risks arising in AMP Life include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the FRM Framework including through the use of derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to movements in the financial markets. These movements include foreign exchange rates, interest rates, credit spreads, equity prices or property prices. Market risk in the AMP Life arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, interest bearing investments and corporate debt.

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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

**(b) Market risk sensitivity analysis**

The paragraphs below include sensitivity analysis tables showing how the profit after tax and equity would have been impacted by changes in market risk variables including interest rate risk and currency risk as defined in AASB 7 'Financial Instruments: Disclosures'. They show the direct impact on the profit after tax or equity of a reasonably possible change in factors which affect the carrying value of financial assets and financial liabilities held at the end of the reporting period.

The sensitivity is required to show the impact of a reasonably possible change in market rate (it is not intended to illustrate a remote, worst case, stress test scenario nor does it represent a forecast. In addition it does not include the impact of any mitigating management actions) over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

**(i) Interest rate risk**

Interest rate risk is the risk of an impact on AMP Life's profit after tax and equity from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates.

Interest rate risk arises from interest bearing financial assets and financial liabilities in various activities of AMP Life. Management of those risks is decentralised according to the activity.

As discussed in Note 1(b), AMP Life conducts wealth management and life insurance business through separate life statutory funds. Investment assets of the life statutory funds including interest-bearing financial assets are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital.

Interest rate risk of AMP Life which impacts shareholders arises in respect of financial assets and liabilities held in the shareholder fund and in the life statutory funds. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the life statutory funds to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (Investment-linked business), there is no residual interest rate exposure which would impact shareholders.

Management of various risks associated with investments undertaken by life statutory funds and the life shareholder fund, such as interest rate risk, is subject to the relevant regulatory requirements governed by the Life Act. AMP Life is required to satisfy solvency requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities.

AMP Life manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to policyholder expectations and risks to the AMP Life Board's target surplus philosophy for both capital adequacy and solvency as advised by the Appointed Actuary.

**Interest rate risk sensitivity analysis**

This analysis demonstrates the impact of a 100 basis point change in Australian and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that would qualify as cash flow hedges for hedge accounting. A sensitivity level of 100 basis points is determined considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in AMP Life.

Change in variables	2011		2010	
	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)
	\$m	\$m	\$m	\$m
+ 100 basis points	(22)	(22)	(14)	(14)
- 100 basis points	43	43	16	16

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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

*(ii) Currency risk*

Currency risk is the risk of an impact on AMP Life's profit after tax and equity from movements in foreign exchange rates. Changes in value would occur in respect of translating AMP Life's capital invested in overseas operations into Australian dollars at reporting date (translation risk) or from foreign exchange rate movements on specific cash flow transactions (transaction risk).

AMP Life does not hedge the capital invested in overseas operations, thereby accepting the foreign currency translation risk on invested capital.

*Currency risk sensitivity analysis*

This analysis demonstrates the impact of a 10 per cent movement of currency rates against the Australian dollar, with all other variables held constant, on the profit after tax and equity due to changes in fair value of currency sensitive monetary assets and liabilities at the reporting date. It is assumed that the 10 per cent change occurs as at the reporting date. A sensitivity level of 10% is determined considering the range in currency exposures of AMP Life.

Change in variables	2011		2010	
	Impact on profit after tax Increase (decrease) \$m	Impact on equity Increase (decrease) \$m	Impact on profit after tax Increase (decrease) \$m	Impact on equity Increase (decrease) \$m
10% depreciation of AUD	(1)	(1)	8	8
10% appreciation of AUD	1	1	(8)	(8)

*(iii) Equity price risk*

Equity price risk is the risk of an impact on AMP Life's profit after tax and equity from movements in equity prices. AMP Life measures equity securities at fair value through profit or loss.

*Equity price risk Sensitivity analysis*

The analysis demonstrates the impact of a 10 per cent movement in Australian and International equities held at the reporting date. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments. Any potential indirect impact on fees from AMP Life's investment linked business is not included. A sensitivity level of 10 per cent is determined considering the widely spread portfolios held by AMP Life and the range of movements in equity markets for the periods.

Change in variables	2011		2010	
	Impact on profit after tax Increase (decrease) \$m	Impact on equity Increase (decrease) \$m	Impact on profit after tax Increase (decrease) \$m	Impact on equity Increase (decrease) \$m
10% increase in Australian equities	8	11	9	9
10% increase in International equities	(1)	-	8	8
10% decrease in Australian equities	(16)	(18)	(9)	(9)
10% decrease in International equities	1	-	(8)	(8)

*(c) Liquidity and re-financing risk*

Liquidity risk is the risk that AMP Life is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk, a sub-set of liquidity risk, is the risk that the maturity profile of existing debt is such that it would be difficult to refinance (or rollover) maturing debt, or there is excessive exposure to potentially unfavourable market conditions at any given time.

To ensure that the AMP Life has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, Group Treasury maintains a defined surplus of cash plus six months of debt maturities to mitigate refinancing risk, satisfy regulatory requirements and protect against liquidity shocks in accordance with the liquidity risk management policy approved by the AMP Life Limited Board.

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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

The following table summarises the maturity profiles of AMP Life's undiscounted financial liabilities and off-balance sheet items at the reporting date. The maturity profiles are based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

**Maturity profiles of undiscounted financial liabilities<sup>(1)</sup>**

	Up to 1 Year or no term \$m	1 to 5 Years \$m	More than 5 Years \$m	Other <sup>(2)</sup> \$m	Total \$m
<b>2011</b>					
Payables	710	-	-	-	710
Borrowings	573	-	-	-	573
Investment contract liabilities <sup>(2)</sup>	1,247	1,111	1,685	44,246	48,289
<b>Total undiscounted financial liabilities<sup>(2)</sup></b>	<b>2,530</b>	<b>1,111</b>	<b>1,685</b>	<b>44,246</b>	<b>49,572</b>
<b>2010</b>					
Payables	673	2	-	-	675
Borrowings	583	-	-	-	583
Investment contract liabilities <sup>(2)</sup>	749	946	1,463	46,017	49,175
<b>Total undiscounted financial liabilities<sup>(2)</sup></b>	<b>2,006</b>	<b>948</b>	<b>1,463</b>	<b>46,017</b>	<b>50,433</b>

**Footnotes:**

(1) The table provides maturity analysis of AMP Life financial liabilities and non-linked investment contracts including term annuities.

(2) Investment contract liabilities of \$44,246m (2010: \$46,017m) are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all those policyholders claimed their funds, there may be some delays in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk.

(3) Estimated net cash outflow profile of life insurance contract liabilities is disclosed in Note 17(i).

**(d) Credit risk**

Credit risk includes both settlement credit exposures and traded credit exposures. Credit default risk is the risk of an adverse impact on results and asset values relative to expectations due to a counterparty failing to meet their contractual commitments in full and on time (obligator's non-payment of a debt). Traded credit risk is the risk of an adverse impact on results and asset values relative to expectations due to changes in value of a traded financial instrument as a result of changes in credit risk on that instrument.

The AMP Concentration Risk Policy sets out the assessment and determination of what constitutes credit risk. The policy has set exposure limits for each counterparty and credit rating. Compliance with this policy is monitored and exposures and breaches are reported to senior management and the AMP Life AC through the weekly and quarterly FRM Report.

Credit risk management is decentralised in business units within the AMP Group; however, credit risk directly and indirectly (ie, in the participating business) impacting shareholder capital is measured and managed by Group Treasury by aggregating risk from credit exposures taken in business units as detailed below.

Credit risk on the invested fixed income portfolios in the AMP Life statutory funds is managed by the AMP Capital Investors Risk and Compliance Committee (AMP Capital Investors R&C) and reported to the fund managers, within specified credit criteria in the mandate approved by the AMP Life Board. The shareholder portion of credit risk in AMP Life is reported to Group ALCO by Group Treasury.

**(i) Management of credit risk concentration**

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk is managed through both aggregate credit rating limits and individual counterparty limits, which are determined predominantly on the basis of the counterparty's credit rating.

At reporting date, there is no specific concentration of credit risk with a single counterparty arising from the use of financial instruments, other than the normal clearing-house exposures associated with dealings through recognised exchanges.

The counterparties to non-exchange traded contracts, at the time of entering those contracts, are limited to companies with investment grade credit (BBB- or greater). The credit risks associated with these counterparties are assessed under the same management policies as applied to direct investments in AMP Life's portfolio.

Compliance is monitored and exposures and breaches are reported to senior management and the AMP Life AC through the weekly and quarterly FRM Report.

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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

*(ii) Exposure to credit risk*

AMP Life's maximum exposure to credit risk on recognised financial assets, without taking account of any collateral or other credit enhancements as at the reporting date was \$24,882m (2010: \$22,960m). This amount includes (i) financial assets of investment linked business in AMP Life where the liability to policyholders is linked to the performance and value of the assets that back those liabilities and consequently there is no exposure to shareholders, and (ii) other items arising in the course of operations which are managed by the respective business units.

The exposures on the interest bearing securities and cash equivalents which impact AMP Life's capital position are managed by Group Treasury within limits set by the AMP Life Concentration Risk Policy. The following table provides information regarding the credit risk exposures for those items according to the credit rating of the counterparties.

	2011	2010
	\$m	\$m
AAA	3,574	4,148
AA	7,491	4,716
A	3,368	2,410
BBB	1,185	1,518
Below BBB	165	219
<b>Total financial assets with credit risk exposure managed by AMP Group Treasury</b>	<b>15,783</b>	<b>13,011</b>

*(iii) Past due but not impaired financial assets of AMP Life*

No disclosures are required for AMP Life as the entity does not have any financial assets that are past due but not impaired at reporting date.

*(iv) Adjustment for own credit risk in the determination of the fair value of life investment contract policy liabilities*

The fair value of non-investment linked investment contract liabilities includes the following allowance for the credit risk that an external party would ascribe to an amount due from AMP Life:

	2011	2010
	\$m	\$m
Cumulative adjustment	26	19
Change during the period	7	4

The adjustment has been determined as the difference between the fair value recognised and an amount calculated on the same basis using a risk-free interest rate in place of the fair value discount rate.

*(v) Collateral*

AMP Life enters into debt security repurchase agreements and part of the agreement includes the receipt of collateral which is required to be returned to the counterparty on settlement. As at 31 December 2011 the collateral held by AMP Life include Cash and cash equivalents of \$2m (2010: \$0m) and debt securities of \$639m (2010: \$1,398m).

**(e) Derivative financial instruments**

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

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

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

The market risk of derivatives is managed and controlled as an integral part of the financial risk of AMP Life. The credit risk of derivatives is also managed in the context of AMP Life's overall credit risk policies.

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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

**(f) Fair value measures**

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

Level 1: Valued by reference to quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arms length basis.

Level 2: Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals, currency rates, option volatilities, credit risks, and default rates.

Level 3: Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. Unobservable inputs are determined based on the best information available, which might include AMP Life's own data, reflecting AMP Life's own estimates about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available, and include estimates about the timing of cash flows, discount rates, earnings multiples and other inputs.

The following table shows an analysis of financial instruments measured at fair value by each level of the fair value hierarchy:

2011	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets</b>				
Equity securities and listed managed investment schemes	9,559	7	232	9,798
Debt securities	-	9,317	151	9,468
Investments in unlisted managed investment schemes	-	42,235	222	42,456
Derivative financial assets	227	308	-	535
Other financial assets	-	125	-	125
<b>Total financial assets</b>	<b>9,786</b>	<b>51,990</b>	<b>605</b>	<b>62,382</b>
<b>Liabilities</b>				
Borrowings	-	573	-	573
Other financial liabilities	677	67	-	744
Investment contract liabilities	-	3,062	44,737	47,799
<b>Total financial liabilities</b>	<b>677</b>	<b>3,702</b>	<b>44,737</b>	<b>49,116</b>
<b>2010</b>	<b>Level 1 \$m</b>	<b>Level 2 \$m</b>	<b>Level 3 \$m</b>	<b>Total fair value \$m</b>
<b>Assets</b>				
Equity securities and listed managed investment schemes	11,156	108	211	11,473
Debt securities	-	11,921	113	12,034
Investments in unlisted managed investment schemes	-	41,584	183	41,767
Derivative financial assets	164	301	-	466
Other financial assets	-	170	-	170
<b>Total financial assets</b>	<b>11,320</b>	<b>54,082</b>	<b>507</b>	<b>65,910</b>
<b>Liabilities</b>				
Borrowings	-	587	-	587
Other financial liabilities	1,432	154	-	1,586
Investment contract liabilities	-	1,995	46,585	48,580
<b>Total financial liabilities</b>	<b>1,432</b>	<b>2,736</b>	<b>46,585</b>	<b>50,753</b>



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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

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 date:

	Balance at the beginning of the year	FX gains or losses	Total gains/ losses	Purchases/ deposits	Sales/ with- drawals	Net in/(out) transfers	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>2011</b>								
<b>Assets</b>								
Equity securities and listed managed investment	211	-	17	2	-	2	232	17
Debt Securities	113	-	30	-	(46)	54	151	30
Investments in unlisted managed investment	183	-	(15)	3	(5)	56	222	(15)
<b>Total financial assets</b>	<b>507</b>	<b>-</b>	<b>32</b>	<b>5</b>	<b>(51)</b>	<b>112</b>	<b>605</b>	<b>32</b>
<b>Liabilities</b>								
Investment contract liabilities	46,585	(2)	(1,494)	8,972	(9,326)	2	44,737	(1,441)
<b>Total financial liabilities</b>	<b>46,585</b>	<b>(2)</b>	<b>(1,494)</b>	<b>8,972</b>	<b>(9,326)</b>	<b>2</b>	<b>44,737</b>	<b>(1,441)</b>
<b>2010</b>								
<b>Assets</b>								
Equity securities and listed managed investment	274	-	(38)	6	(4)	(27)	211	(38)
Debt Securities	180	-	61	12	(169)	29	113	61
Investments in unlisted managed investment	194	-	(71)	5	(16)	71	183	(71)
<b>Total financial assets</b>	<b>648</b>	<b>-</b>	<b>(48)</b>	<b>23</b>	<b>(169)</b>	<b>73</b>	<b>507</b>	<b>(48)</b>
<b>Liabilities</b>								
Investment contract liabilities	45,506	(6)	1,342	7,585	(7,842)	-	46,585	1,320
<b>Total financial liabilities</b>	<b>45,506</b>	<b>(6)</b>	<b>1,342</b>	<b>7,585</b>	<b>(7,842)</b>	<b>-</b>	<b>46,585</b>	<b>1,320</b>

**AMP Life Limited**  
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**19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

The following table shows the sensitivity of the fair value of level 3 instruments to changes in key assumptions:

		Effect of reasonably possible alternative assumptions	
2011	Carrying amount \$m	(+) \$m	(-) \$m
<b>Assets</b>			
Equity securities and listed managed investment schemes	232	24	-
Debt securities	151	-	-
Investments in unlisted managed investment schemes	222	-	-
<b>Financial assets</b>	<b>605</b>	<b>24</b>	<b>-</b>
<b>Liabilities</b>			
Investment contract liabilities	44,737	9	(9)
<b>Financial liabilities</b>	<b>44,737</b>	<b>9</b>	<b>(9)</b>

		Effect of reasonably possible alternative assumptions	
2010	Carrying amount \$m	(+) \$m	(-) \$m
<b>Assets</b>			
Equity securities and listed managed investment schemes	211	5	(5)
Debt securities	113	-	-
Investments in unlisted managed investment schemes	183	-	-
<b>Financial assets</b>	<b>507</b>	<b>5</b>	<b>(5)</b>
<b>Liabilities</b>			
Investment contract liabilities	46,585	(10)	10
<b>Financial liabilities</b>	<b>46,585</b>	<b>(15)</b>	<b>15</b>

Footnote:

(1) The sensitivity has been calculated by changing key inputs such as discount rates and earnings multiples by a reasonably possible amount.

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**20. CAPITAL MANAGEMENT**

AMP Life and its subsidiaries hold capital to protect customers, creditors and shareholders against unexpected losses to a level that is consistent with AMP's risk appetite.

AMP Life and its subsidiaries assess the adequacy of its capital requirements against regulatory capital requirements. AMP Life is an operating entity within the AMP group and is an APRA regulated company. Controlled entities of AMP Life also include an APRA regulated approved superannuation trustee (RSE) and companies that hold Australian Financial Services Licences (AFSL).

The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process. In addition to managing the level of capital resources, the AMP group also aims to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

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

- AMP Life – Solvency, capital adequacy and management capital requirements as specified under the *Life Act* and APRA Life Insurance Prudential Standards.
- Controlled entities of AMP Life that hold an AFSL and RSE license – capital and liquidity requirements under the appropriate AFSL and RSE.

AMP Life and its subsidiaries have at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

AMP's regulated businesses each target a level of capital equal to MRR plus a target surplus.

The AMP Life Statutory Funds target surplus is set by reference to a probability of breaching regulatory capital requirements. This is a two tiered test where the target surplus is set as the greater of the amount required for a:

- 1 per cent probability of breaching solvency over one year
- 10 per cent probability of breaching capital adequacy over one year.

A number of regulatory capital reviews are currently underway or are in the process of being implemented which will impact AMP Life.

The APRA life and general insurance prudential review aims to align the capital framework of APRA-regulated life and general insurance companies. APRA expects to issue final standards in May 2012, which are likely to take effect from 1 January 2013. AMP Life has commenced an assessment of the impact of these draft prudential standards on its regulatory capital position. While the assessment is still ongoing, it is expected that there will be an increase in minimum regulatory capital requirements.

Other regulatory capital reviews underway include:

- The Reserve Bank of New Zealand has finalised its New Zealand solvency standards for the country's life insurance companies. AMP Life is likely to be exempt from most aspects of these standards on the basis of its compliance with APRA solvency standards.
- The Australian Securities and Investments Commission has completed its review of financial requirements imposed on responsible entities of registered managed investment schemes under the AFSL regime, with changes to take effect from 1 November 2012.
- Introduction of APRA prudential standards for Superannuation Trustees. The prudential standards are expected to be completed during 2012 and commence in 2013.

**AMP Life Limited**  
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**21. NOTES TO STATEMENT OF CASH FLOWS**

	2011 \$m	2010 \$m
<b>(a) Reconciliation of the net profit after income tax to cash flows from operating activities</b>		
Net profit for the year	680	592
Depreciation of operating assets	9	10
Net loss / (profit) on sale of investments and operating assets	458	437
(Increase) / decrease in investment asset values	3,029	34
Dividend and distribution income reinvested	(2,131)	(1,554)
Decrease / (Increase) in receivables and other assets	(71)	20
Increase / (decrease) in net policy liabilities	(1,197)	722
Increase / (decrease) in income tax balances	(358)	284
Increase in other payables	545	(102)
<b>Cash flows from (used in) operating activities</b>	<b>966</b>	<b>423</b>
	2011 \$m	2010 \$m
<b>(b) Reconciliation of cash</b>		
Cash on hand	(1)	(24)
Cash on deposit	3,260	2,378
Short term bills and notes (Included in Debt securities)	1,590	4,063
<b>Balance at the end of the period</b>	<b>4,849</b>	<b>6,417</b>

**AMP Life Limited**  
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**22. INVESTMENTS IN CONTROLLED ENTITIES**

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	Footnote	% Holdings	
				2011	2010
255 George Street Investment A Pty Ltd	Australia	Ord		100	100
255 George Street Investment B Pty Ltd	Australia	Ord		100	100
35 Ocean Keys Pty Limited	Australia	Ord		100	100
Abbey Capital Real Estate Pty Limited	Australia	Ord		100	100
ACIT Finance Pty Limited	Australia	Ord	(1)	100	-
Aged Care Investment Services No. 1 Pty Limited (formerly PHF No. 1 Management Pty Limited)	Australia	Ord		100	100
Aged Care Investment Services No. 2 Pty Limited (formerly PHF No. 1 Pty Limited)	Australia	Ord		100	100
Allmarg Corporation Limited	NZ	Ord, Pref		100	100
AMP ASAL Pty Ltd	Australia	Ord		100	100
AMP Capital Investments No. 2 Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No. 8 Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No. 11 Limited	NZ	Ord A & B		100	100
AMP Capital Investments No. 14 Limited	NZ	Ord A & B		100	100
AMP Capital Investor Lifestyle Limited	Australia	Ord		52	52
AMP CMBS No. 1 Pty Limited	Australia	Ord		100	100
AMP CMBS No. 2 Pty Limited	Australia	Ord		100	100
AMP Finance Limited	Australia	Ord		100	100
AMP Financial Planning Pty Limited	Australia	Ord		100	100
AMP GBS Limited	Australia	Fixed		100	100
AMP GI Distribution Pty Limited	Australia	Ord	(2)	-	100
AMP Global Property Investments Pty Limited	Australia	Ord	(2)	-	100
AMP Insurance Investment Holdings Pty Limited	Australia	Ord		100	100
AMP Investments Chile Limitada	Chile	Ord	(2)	-	100
AMP Life (NZ) Investments Holdings Limited	NZ	Ord		100	100
AMP Life (NZ) Investments Limited	NZ	Ord		100	100
AMP Personal Investment Services Limited	Australia	Ord		100	100
AMP Planner Register Company Pty Limited	Australia	Ord		100	100
AMP Private Wealth Management Pty Limited	Australia	Ord		100	100
AMP Property Investments (Old) Pty. Ltd.	Australia	Ord		100	100
AMP Remuneration Reward Plans Nominees Pty. Limited	Australia	Ord		100	100
AMP Services (NZ) Limited	NZ	Ord		100	100
AMP SMSF Holding Co Limited	Australia	Ord		100	100
AMP SMSF Investments Pty Limited	Australia	Ord	(1)	100	-
AMP Superannuation (NZ) Limited	NZ	Ord		100	100
AMP Superannuation Limited	Australia	Ord		100	100
AMPIERGO Mortgage and Savings Limited	NZ	Ord		100	100
Arrive Wealth Management Limited	Australia	Ord		100	100
Arthur Ellis & Co. Limited	NZ	Ord	(2)	-	100
Australian Securities Administration Limited	Australia	Ord		100	100
CBD Financial Planning Pty Limited	Australia	Ord		100	100
Collins Place No. 2 Pty Ltd	Australia	Ord		100	100
Collins Place Pty Limited	Australia	Ord		100	100
Donaghys Australia Pty Limited	NZ	Ord		58	58
Donaghys Industries Limited	NZ	Ord		58	58

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**22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)**

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	Footnote	% Holdings	
				2011	2010
Donaghys International Limited	NZ	Ord		58	58
Donaghys Limited	NZ	Ord, Pref		58	58
Donaghys Pty Limited	NZ	Ord		58	58
Focus Property Services Pty Limited	Australia	Ord	(3)	56	98
Glendenning Pty Limited	Australia	Ord		100	100
Hillross Alliances Limited	Australia	Ord		100	100
Hillross Financial Services Limited	Australia	Ord		100	100
Hillross Innisfail Pty Limited	Australia	Ord		100	100
Hillross Wealth Management Centre Canberra Pty Limited	Australia	Ord	(2)	-	50
Hillross Wealth Management Centre Melbourne Pty Limited	Australia	Ord		100	100
Honeysuckle 231 Pty Limited	Australia	Ord		60	60
INSSA Pty Limited	Australia	Ord		100	100
Inversiones Mineras Los Andes Limitada	Chile	Ord	(2)	-	100
Jemine Pty Limited	Australia	Ord		51	51
Kent Street Pty Limited	Australia	Ord		100	100
Kwi Kat Limited	NZ	Ord		70	70
Knox City Shopping Centre Investments (No. 2) Pty Limited	Australia	Ord		100	100
Kramer Holdings Pty Limited	Australia	Ord	(3)	78	78
Mowla Pty. Ltd.	Australia	Ord		100	100
PHFT Finance Pty Limited	Australia	Ord		100	100
PremierOne Mortgage Advice Pty Limited	Australia	Ord		100	100
Principal Healthcare Finance No. 2 Pty Limited	Australia	Ord		100	100
Principal Healthcare Finance Pty Limited	Australia	Ord		100	100
Principal Healthcare Holdings Pty Limited	Australia	Ord		100	100
Priority One Financial Services Limited	Australia	Ord		100	100
Quay Mining (No. 2) Limited	Bermuda	Ord, Pref		100	100
Quay Mining Pty Limited	Australia	Ord		100	100
Roost 2007 Limited	NZ	Ord		100	100
Scrabster Bay Pty Limited	Australia	Ord		100	100
SPP No. 1 (Alexandra Canal) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Cowes) Pty Limited	Australia	Ord		86	86
SPP No. 1 (H) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mona Vale) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mornington) Pty Limited	Australia	Ord		86	86
SPP No. 1 (New castle) Pty Limited	Australia	Ord		86	86
SPP No. 1 (North Melbourne) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Pakenham) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Point Cook) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Q Stores) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Rosebery) Pty Limited	Australia	Ord		86	86
SPP No. 1 Holdings Pty Limited	Australia	Ord		86	86
SPP No. 1 (Hawthorn) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mt. Waverley Financing) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mt. Waverley) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Port Melbourne) Pty Limited	Australia	Ord		86	86

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**22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)**

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	Footnote	% Holdings	
				2011	2010
Sunshine West Development Pty Limited	Australia	Ord		75	75
The India Infrastructure Fund LLC	Mauritius	Red Pref		100	100
TOA Pty Ltd	Australia	Ord		100	100
United Equipment Holdings Pty Limited	Australia	Ord	(3)	60	53
Waterfront Place (No. 2) Pty. Ltd.	Australia	Ord		100	100
Waterfront Place (No. 3) Pty. Ltd.	Australia	Ord		100	100

**Footnote:**

- (1) Controlling interest acquired in 2011.
- (2) Controlling interest disposed in 2011.
- (3) Not audited by Ernst & Young.

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**22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)**

Details of significant investments in controlled trusts are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings	
			2011	2010
140 St Georges Terrace Trust	Australia		100	100
ACPP Holding Trust	Australia		100	100
ACPP Industrial Trust	Australia		100	100
ACPP Office Trust	Australia		100	100
ACPP Retail Trust	Australia		100	100
Active Quant Share Fund	Australia		76	73
AFS Extended Alpha Fund (formerly AMP Capital Sustainable Extended Alpha Fund)	Australia		100	100
AFS International Share Fund 1	Australia	(1)	100	-
Aggressive Enhanced Index Fund	Australia		100	100
AHGI Martineau Fund	Australia		100	100
AHGI Martineau Galleries Fund	Australia		100	100
AMP Capital Asia ex-Japan Fund	Australia		100	92
AMP Capital Asian Equity Growth Fund	Australia		73	94
AMP Capital Corporate Bond Fund	Australia		86	93
AMP Capital Credit Strategies Fund	Australia		93	90
AMP Capital Global Equities Sector Rotation Fund	Australia	(1)	100	-
AMP Capital Global Infrastructure Securities Fund (Hedged)	Australia		84	100
AMP Capital Global Infrastructure Securities Fund (Unhedged)	Australia	(1)	84	-
AMP Capital Global Tactical Asset Allocation Fund	Australia		100	98
AMP Capital Investors Australian Equity Long Short Fund	Australia		100	100
AMP Capital Investors China Strategic Growth Fund	Australia		100	100
AMP Capital Investors Infrastructure Fund 1	Australia		100	100
AMP Capital Lifestyle Trust	Australia	(2)	-	52
AMP Capital Macro Strategies Fund	Australia		84	78
AMP Capital Mature Life Fund A	Australia	(2)	-	52
AMP Capital Mature Life Fund B	Australia	(2)	-	52
AMP Capital Multi Asset Fund (formerly New Balanced Fund)	Australia		99	100
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Australia		90	90
AMP Capital Sustainable Share Fund	Australia	(1)	66	-
AMP Life Cash Management Trust	Australia	(1)	100	-
AMP Macquarie Holdings Trust	Australia		90	90
AMP Macquarie Trust	Australia		90	90
AMP Pacific Fair Trust	Australia		90	90
AMP Private Capital Trust No.4	Australia	(2)	-	100
AMP Private Capital Trust No.9	Australia		100	100
AMP Smaller Companies Fund	Australia	(1)	51	-
AMP UK Shopping Centre Fund	Australia		100	100
AMP Wholesale Office Fund	Australia	(3)	36	46
AMPCIFD Infrastructure Trust (formerly FD Infrastructure Trust)	Australia		97	100
Australian Pacific Airports Fund	Australia		66	66
AWOF New Zealand Office Trust	NZ	(3)	36	46
Balanced Enhanced Index Fund	Australia		100	99
Bourke Place Unit Trust	Australia		57	57
Cautious Enhanced Index Fund	Australia		100	100
Conservative Enhanced Index Fund	Australia		98	96
Crossroads Trust	Australia		100	100
Davidson Road Trust	Australia		100	100
EFMAustralian Share Fund 1	Australia		97	97



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**22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)**

Details of significant investments in controlled trusts are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings	
			2011	2010
EFM Australian Share Fund 2	Australia		99	99
EFM Australian Share Fund 3	Australia		98	98
EFM Australian Share Fund 4	Australia		94	95
EFM Australian Share Fund 6	Australia		99	99
EFM Australian Share Fund 7	Australia		98	98
EFM Fixed Interest Fund 2	Australia		97	97
EFM Fixed Interest Fund 3	Australia		96	97
EFM Fixed Interest Fund 4	Australia		94	94
EFM Infrastructure Fund 1	Australia		96	97
EFM International Share Fund 3	Australia		97	97
EFM International Share Fund 5	Australia		97	97
EFM International Share Fund 7	Australia		92	92
EFM Listed Property Fund 1	Australia		96	96
Enhanced Index International Share Fund	Australia		82	82
Enhanced Index Share Fund	Australia		90	84
FD Australian Share Fund 1	Australia		97	97
FD Australian Share Fund 3	Australia		93	93
FD Global Property Securities Fund 1	Australia		94	94
FD International Bond Fund 3	Australia		89	96
FD International Share Fund 1	Australia		95	95
FD International Share Fund 3	Australia		99	99
FD International Share Fund 4	Australia		97	96
Floating Rate Income Fund	Australia		97	98
Future Directions Australian Bond Fund	Australia		96	98
Future Directions Asia ex Japan Fund	Australia		74	82
Future Directions Australian Share Fund	Australia		94	94
Future Directions Australian Small Companies Fund	Australia		89	94
Future Directions Balanced Fund	Australia		98	98
Future Directions Conservative Fund	Australia		94	94
Future Directions Core International Share Fund 2	Australia		58	72
Future Directions Credit Opportunities Fund	Australia		97	100
Future Directions Enhanced Index Australian Share Fund	Australia		97	100
Future Directions Enhanced Index Global Property Securities Fund	Australia		96	100
Future Directions Enhanced Index International Bond Fund	Australia		81	82
Future Directions Enhanced Index International Share Fund	Australia	(2)	-	96
Future Directions Geared Australian Share Fund	Australia		92	91
Future Directions Growth Fund	Australia		96	95
Future Directions Hedged Core International Share Fund	Australia		63	76
Future Directions High Growth Fund	Australia		95	94
Future Directions Inflation Linked Bond Fund	Australia		97	100
Future Directions Infrastructure Fund	Australia		97	100
Future Directions International Bond Fund	Australia		93	96
Future Directions International Share Fund	Australia		57	92

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**22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)**

Details of significant investments in controlled trusts are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings	
			2011	2010
Future Directions Moderately Conservative Fund	Australia		95	93
Future Directions Opportunistic Fund	Australia		97	100
Future Directions Private Equity Fund 1A	Australia		97	100
Future Directions Private Equity Fund 1B	Australia		100	100
Future Directions Private Equity Fund 2A	Australia		97	100
Future Directions Private Equity Fund 2B	Australia		100	100
Future Directions Private Equity Fund 3A	Australia		100	100
Future Directions Private Equity Fund 3B	Australia		100	100
Future Directions Property (Feeder) Fund	Australia		98	98
Future Directions Total Return Fund	Australia		97	99
Future Directors Emerging Markets Share Fund	Australia	(1)	51	-
Global Credit Strategies Fund	Australia		87	87
Global Growth Opportunities Fund	Australia		96	96
Global Listed Infrastructure Fund	Australia		100	100
Goldman Sachs Commodity Index Light Energy - E92 Portfolio	Australia		96	95
International Bond Fund	Australia		91	93
Kent Street Investment Trust	Australia		100	100
Kent Street Unit Trust	Australia		100	100
Loftus Street Trust	Australia	(3)	36	46
Macquarie Balanced Growth Fund	Australia		78	68
Managed Treasury Fund	Australia		76	77
Moderately Aggressive Enhanced Index Fund	Australia		100	100
Moderately Conservative Enhanced Index Fund	Australia		100	100
Monash House Trust	Australia		100	100
Principal Healthcare Holdings Trust	Australia		100	100
Private Equity Fund IIA	Australia		94	94
Private Equity Fund IIB	Australia		94	94
Responsible Investment Leaders Conservative Fund	Australia		94	92
Responsible Investment Leaders Growth Fund	Australia		98	96
Responsible Investment Leaders High Growth Fund	Australia		100	100
Riverside Plaza Trust	Australia		100	100
Select Property Portfolio No. 1	Australia		86	86
Student Housing Accommodation Growth Trust 2	Australia	(2)	-	100
Sydney Cove Trust	Australia		100	100
The Glendenning Trust	Australia		100	100
The Pinnacle Fund	Australia		99	99
Warringah Mall Trust	Australia		87	67
Wholesale Australian Bond Fund	Australia		93	92

Footnotes:

(1) Controlling interest acquired in 2011

(2) Controlling interest disposed of in 2011

(3) Not more than 50% holding, but consolidated because AMP retains control over the operating functions

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**23. INVESTMENTS IN ASSOCIATED ENTITIES**

**Investments in associates held by the life statutory funds measured at fair value through profit or loss<sup>(1)</sup>**

COMPANIES <sup>(2)</sup> NAME OF COMPANY	PRINCIPAL ACTIVITY <sup>(3)</sup>	Footnote	Ownership interest		Carrying amount	
			2011 %	2010 %	2011 \$m	2010 \$m
Gove Aluminium Finance	Aluminium smelting		30%	30%	137	125
Others (each less than \$50m)			Various		12	10
<b>Total investments held by the life statutory funds in associated companies</b>					<b>149</b>	<b>135</b>

**UNIT TRUSTS<sup>(2)</sup>**  
**NAME OF TRUST**

AMP China Growth Fund	Investment trusts		34%	34%	73	92
AMP Equity Trust	Investment trusts		42%	41%	181	230
AMP Shopping Centre Fund	Investment trusts		37%	46%	642	724
AMP Small Company Trust	Investment trusts	(4)	-	46%	-	118
Global Property Securities Fund	Investment trusts		22%	23%	264	382
Infrastructure Equity Fund	Investment trusts		29%	28%	121	113
Property Income Fund	Investment trusts		35%	38%	201	215
Responsible Investments Leader Balanced Fund	Investment trusts		41%	28%	212	236
Strategic Infrastructure Trust Europe 1	Investment trusts		32%	27%	73	59
Strategic Infrastructure Trust Europe 2	Investment trusts		32%	27%	73	59
Sustainable Future Australia Share Fund	Investment trusts	(4)	-	45%	-	589
Value Plus Australia Share Fund	Investment trusts		25%	23%	51	61
Others (each less than \$50m)	Investment trusts		Various		245	197
<b>Total investments held by the life statutory funds in associated trusts</b>					<b>2,136</b>	<b>3,075</b>

**Footnote:**

- (1) Investment in associated entities that back investment contract and life insurance contract liabilities are treated as financial assets and are carried at fair value. Refer to Note 1(f).  
(2) The balance date for all significant associated entities is 31 December.  
(3) In the course of normal operating investment activities, the life statutory funds hold investments in various operating businesses. Investments in associated entities reflect investments where the life statutory funds hold between a 20% and 50% equity interest.  
(4) Trust ceased being an associated entity during 2011

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**24. CONTINGENT LIABILITIES AND FORWARD INVESTMENTS**

*Contingent liabilities*

AMP Life from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business; including guarantees issued by AMP Life for performance obligations to controlled entities in the AMP Life group.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice seriously the position of AMP Life (or its insurers) in a dispute, accounting standards allow AMP Life not to disclose such information and it is AMP Life's policy that such information is not to be disclosed in this note.

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

*Forward investments*

	2011 \$m	2010 \$m
<b>Forward Investments - callable at any time</b>		
Uncalled capital on shares in relation to <sup>(1)</sup> :		
- associated entities	44	46
- other entities	13	17
Uncalled capital on units in relation to <sup>(1)</sup> :		
- controlled entities	122	95
- associated unit trusts	25	17
- other unit trusts	2	3
Commitment to acquire debt securities from:		
- controlled unit trusts <sup>(2)</sup>	110	49
<b>Total forward investments</b>	<b>316</b>	<b>227</b>

*Footnote:*

(1) Uncalled capital represents a commitment to make further capital contributions for shares, unit trusts and certain private capital investments held within the statutory funds.

(2) Commitment to acquire debt securities from controlled unit trust is a commitment entered into by the Company to acquire particular debt securities at face value from a controlled trust at the option of the trust.

**25. RELATED PARTY DISCLOSURES**

**(a) Key management personnel details**

The following individuals were the key management personnel (being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise)) of AMP Life for the whole or part of the reporting period as indicated:

Richard Grellman	Chairman, Non-Executive Director	Resigned: 12 May 2011
Craig Dunn	Director, Chief Executive Officer - AMP Limited	
Catherine Brenner	Chairman, Non-Executive Director	
Anthony Coleman	Non-Executive Director	Appointed: 14 February 2011
Craig Meller	Managing Director - AMP Financial Services	
John Palmer	Non-Executive Director	
Peter Shergold	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Appointed: 1 July 2011

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**25. RELATED PARTY DISCLOSURES (CONTINUED)**

**(b) Remuneration of key management personnel**

The following table provides aggregate details of the compensation of key management personnel of AMP Life Limited.

	Short Term Benefits	Post Employment Benefits	Share Based Payments	Other Long Term Benefits	Termination benefits	Total
	\$	\$	\$	\$	\$	\$
2011	5,396,426	85,318	3,341,000			8,822,744
2010	6,058,136	73,482	3,025,000	-	-	9,156,618

**(c) Transactions with key management personnel**

During the year, key management personnel and their personally related entities have entered into transactions with the disclosing entity or its subsidiaries. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect AMP Life would have adopted if dealing at arm's length with an unrelated individual. These transactions include:

- the purchase of AMP insurance and investment products
- financial investment services.

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

**(d) Transactions with key related parties**

Transactions with related parties are made at arms length and on normal commercial terms. Outstanding balances at 31 December 2010 and 31 December 2011 are unsecured, non interest bearing and settlement occurs in cash or through intercompany accounts as necessary.

AMP Life parent purchases administrative services from AMP Services Limited and AMP Services (NZ) Limited on a fee service basis. (2011: \$636m, 2011: \$622m). Services purchased include product distribution, marketing, payroll, personnel, computing and accounting services.

AMP Life receives investment services from AMP Capital Investors Limited and AMP Capital Investors (New Zealand) Limited (AMP Capital) on a normal commercial basis (2011: \$211m, 2010: \$216m). AMP Capital is a related entity of AMP Life and manages the investment assets of the policyholder fund and the shareholders fund. AMP Capital is also the responsible entity of a number of the controlled and associated unit trusts detailed in Note 21 and Note 22. Investment management services provided by AMP Capital to AMP Life are charged at normal commercial rates.

The company receives financial planning services from AMP Financial Planning Pty Limited, Hillross Financial Services Limited and AMP Superannuation Limited, and is charged on commercial terms and conditions.

The company has amounts in deposits with AMP Bank Limited (2011: \$3,252m, 2010: \$2,183m). Deposits earn interest at normal commercial rates.

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**25. RELATED PARTY DISCLOSURES (CONTINUED)**

The following table provides the total amount of significant transactions which AMP Life has entered into with related parties for the relevant financial year:

		Service, management and other fees received from related parties	Service, management and other fees paid to related parties	Amounts owed by related parties	Amounts owed to related parties
Fellow subsidiaries of AMP Limited		\$m	\$m	\$m	\$m
ACPP Holding Trust	2011	8	-	23	-
	2010	8	-	-	-
AMP Capital Investors Limited	2011	9	211	-	28
	2010	-	216	-	36
AMP CMBS No. 2 Pty Limited	2011	-	-	19	-
	2010	-	-	65	-
AMP Financial Planning Pty Limited	2011	-	283	5	-
	2010	-	269	4	-
AMP Financial Services Holding Limited	2011	-	-	173	-
	2010	-	-	173	-
AMP Life (NZ) Investments Holdings Limited	2011	-	-	815	-
	2010	-	-	816	-
AMP Planner Register Company Pty Limited	2011	-	-	41	-
	2010	-	-	88	-
AMP Property Investments (Old) Pty. Ltd.	2011	-	-	-	54
	2010	-	-	-	54
AMP Services Limited	2011	46	599	4	-
	2010	46	566	5	-
AMP Services (NZ) Limited	2011	-	37	-	2
	2010	-	56	-	4
Quay Mining (No. 2) Limited	2011	-	-	-	71
	2010	-	-	-	71
TOA Pty Limited	2011	-	-	-	319
	2010	-	-	-	319

**AMP Life Limited**  
**Notes to the financial statements**  
for the year ended 31 December 2011

**26. AUDITORS' REMUNERATION**

All auditors' remuneration payable to the auditors of AMP Life Limited for the audit of the controlled companies within the AMP Life Group is settled by a related entity. Certain controlled property and private equity funds within the AMP Life Group incur auditors' remuneration directly.

	2011 \$'000	2010 \$'000
<b>Amounts paid or payable to the auditors of AMP Life Limited for:</b>		
Auditing the financial statements of AMP Life Limited and its controlled entities	1,300	1,300
<b>Total amounts received or due and receivable by the auditors of AMP Life Limited<sup>(1)</sup></b>	<b>1,300</b>	<b>1,300</b>

Footnotes:

(1) Periodically, the AMP Life Group gains control, through the investing activity of the AMP Life statutory funds, of entities whose incumbent auditor is an audit firm other than Ernst & Young. These immaterial additional audit fees paid to non-Ernst & Young audit firms are not included in this note.

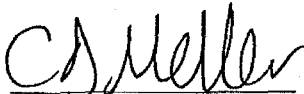
**27. EVENTS OCCURRING AFTER REPORTING DATE**

At the date of this report, the directors are not aware of any matter or circumstance that has arisen since the reporting date which has significantly affected or may significantly affect the operations of the company, the results of its operations or its state of affairs, which is not already reflected in this report.

**AMP Life Limited**  
**Directors' declaration**  
for the year ended 31 December 2011

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

- (a) in the opinion of directors there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the opinion of directors the financial statements and notes are in accordance with the *Corporations Act 2001*, including Section 296 (compliance with accounting standards) and Section 297 (true and fair view); and
- (c) the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards as discussed in Note 1(a).

  
(signature)

CRAG MUeller  
(name)

Director

Sydney, 26 March 2012

  
(signature)

CATHERINE BRENNER  
(name)

Director

Sydney, 26 March 2012





Ernst & Young Centre  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001  
Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
www.ey.com/au

## **Independent auditor's report to the members of AMP Life Limited**

### **Report on the financial report**

We have audited the accompanying financial report of AMP Life Limited, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### **Directors' responsibility for the financial report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### **Auditor's responsibility**

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

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

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

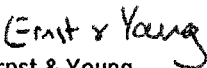
## Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:

1. the financial report of AMP Life Limited is in accordance with the *Corporations Act 2001*, including:
  - a) giving a true and fair view of the company's financial position at 31 December 2011 and of its performance for the year ended on that date; and
  - b) complying with Australian Accounting Standards and *Corporations Regulations 2001*; and
2. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

  
Ernst & Young

  
Andrew Price  
Partner  
Sydney  
26 March 2012

**AMP Life Limited**  
**Statutory Fund No.1**  
ABN 84 079 300 379

**Financial Report**  
**for the Year Ended**  
**31 December 2011**

Registered Office:  
Level 24, 33 Alfred Street  
Sydney NSW 2000 Australia

AMP Life Limited, a company limited by shares, is incorporated and domiciled in Australia

## AMP LIFE LIMITED STATUTORY FUND NO.1

ABN 84 079 300 379

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## DIRECTORS' REPORT

For the year ended 31 December 2011

The Directors present their report on the consolidated entity consisting of AMP Life Limited Statutory Fund No.1 (AMP Life SF1) and the entities it controlled at the end of or during the year ended 31 December 2011.

AMP Life Limited (the Company) is a company limited by shares and is incorporated and domiciled in Australia. AMP Financial Services Holdings Limited is the company's parent entity, and AMP Limited is the ultimate parent entity.

The Registered Office of the Company is at Level 24, 33 Alfred Street, Sydney, NSW 2000.

### Directors

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

Richard Grellman	Non-Executive Director	Resigned: 12 May 2011
Craig Dunn	Director, Chief Executive Officer – AMP Limited	
Catherine Brenner	Chairman, Non-Executive Director	
Anthony Coleman	Non-Executive Director	Appointed: 14 February 2011
Craig Meller	Managing Director – AMP Financial Services	
John Palmer	Non-Executive Director	
Peter Shergold	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Appointed: 1 July 2011, Resigned: 31 March 2012

### Principal activities

AMP Life SF1 provides a range of products and services to customers in Australia and New Zealand. These products and services are primarily distributed through self-employed financial planners and advisers aligned with AMP. These products and services include superannuation, investments, retirement savings, income protection and life insurance. There have been no significant changes in the nature of these activities during the year.

### Review of operations and results

The operating result for the year ended 31 December 2011 was a profit after tax of \$437 million (2010: \$344 million).

### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of AMP Life SF1 during this financial year.

### Events occurring after reporting date

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected or may significantly affect the economic entity's operations in future years; the results of those operations in future years; or the economic entity's state of affairs in future years which is not already reflected in this report.

### Likely developments

Information about likely developments in the operations of the economic entity and the expected results of those operations in future years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the economic entity.

### Environmental regulation

AMP Life SF1 believes that sound environmental management makes good business sense and creates value for our shareholders, customers, employees and the community.

As an investor, AMP Life SF1 believes that the engagement with companies on environmental issues is an effective way to influence management practices for the benefit of customers and the environment.

In the normal course of business operations, AMP Life SF1 is subject to a range of environmental regulations, of which there have been no material breaches during the year.

### Duty of directors under the *Life Insurance Act 1995*

The directors have complied with their duty, as prescribed by the *Life Insurance Act 1995*, to take reasonable care, and use due diligence, to see that in the investment, administration and management of the assets of AMP Life SF1, the economic entity, gives priority to the interests of the policyholders over the interests of the shareholder.

## DIRECTORS' REPORT

For the year ended 31 December 2011

### Indemnification and insurance of directors and officers

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

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

During the financial year, AMP Limited Group agreed to insure all the officers of the Company against certain liabilities as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the cover, the amount of the premium, the limit of liability and other terms.

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

- the director will have access to the books of the company for their period of office and for seven years after they cease to hold office (subject to certain conditions); and
- AMPGH agrees to indemnify the director, to the extent permitted by law, against any liability incurred by the Director in his or her capacity as a director of the company and of other AMP group companies.

### Auditors' independence

The directors have obtained an independence declaration from the Company's auditors, Ernst and Young, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2011.


### Rounding

In accordance with the Australian Securities and Investments Commission (ASIC) Class Order 98/100, amounts in this Directors' Report, and the accompanying Financial Report have been rounded off to the nearest million Australian dollars, unless stated to be otherwise.

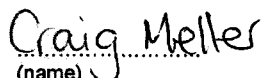
Signed in accordance with a resolution of the Directors.



(signature)



(signature)



(name)

Director

Sydney  
07 May 2012

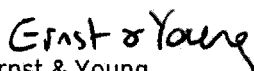


(name)

Director

## Auditor's Independence Declaration to the Directors of AMP Life Limited Statutory Fund No.1

In relation to our audit of the financial report of AMP Life Limited Statutory Fund No.1 for the financial year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

  
Ernst & Young

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

Andrew Price  
Partner  
Sydney  
7 May 2012

## **DIRECTORS' REPORT**

For the year ended 31 December 2011

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Auditor's Independence Declaration to the Directors of AMP Life Limited



**INCOME STATEMENT**

For the year ended 31 December 2011

		Consolidated		Parent	
	Note	2011 A\$M	2010 A\$M	2011 A\$M	2010 A\$M
<b>Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests <sup>(1)</sup></b>					
Life insurance premium and related revenue	3(a), 14(a)	1,140	1,100	1,140	1,100
Fee and other revenue	3(b)	54	50	44	45
Investment gains and (losses)	3(c)	1,689	1,176	1,598	1,228
Life insurance claims and related expenses	4(a), 14(b)	(1,228)	(1,289)	(1,228)	(1,289)
Operating expenses	4(b)	(685)	(663)	(628)	(617)
Finance costs	4(c)	(84)	(24)	(65)	(16)
Change in policyholder liabilities					
- investment contracts		(179)	(134)	(179)	(134)
- life insurance contracts	14(e)	82	202	82	202
Movement in external unitholders' liabilities		(25)	87	-	-
<b>Profit for the year before income tax</b>		<b>764</b>	<b>505</b>	<b>764</b>	<b>519</b>
<b>Income tax expense <sup>(1)</sup></b>	<b>5(a)</b>	<b>(327)</b>	<b>(175)</b>	<b>(327)</b>	<b>(175)</b>
<b>Net profit for the year after income tax</b>		<b>437</b>	<b>330</b>	<b>437</b>	<b>344</b>
<b>(Profit) / loss attributable to non-controlling interests</b>		<b>-</b>	<b>14</b>	<b>-</b>	<b>-</b>
<b>Profit for the year attributable to the shareholder of AMP Life Limited</b>		<b>437</b>	<b>344</b>	<b>437</b>	<b>344</b>

**Footnote:**

<sup>(1)</sup> Income and expenses include amounts attributable to shareholders' interests, policyholders' interests in the life statutory fund, external unitholders' interests and non-controlling interests. Amounts included in respect of the life statutory fund have a substantial impact on most of the consolidated Income statement lines, especially investment gains and losses and tax. In general, policyholders' interests in the transactions for the period are attributed to them in the lines Change in policyholder liabilities.

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2011

	Consolidated		Parent	
	2011 A\$M	2010 A\$M	2011 A\$M	2010 A\$M
Net profit for the year after income tax	437	330	437	344
Other comprehensive income for the year recognised in other reserves				
Other losses	(1)	(14)	(1)	(14)
Income tax thereon	-	-	-	-
	(1)	(14)	(1)	(14)
Total comprehensive income for the year	436	316	436	330
Total comprehensive income (loss) attributable to non-controlling interests	-	14	-	-
Total comprehensive income for the year	436	330	436	330

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2011

		Consolidated		Parent	
	Note	2011 A\$M	2010 A\$M	2011 A\$M	2010 A\$M
<b>Assets</b>					
Cash and cash equivalents		3,417	2,495	3,213	2,274
Receivables	6	882	602	874	563
Current tax assets		3	-	3	-
Inventories and other assets	7	16	18	1	1
Investment in financial assets	8	21,320	21,165	20,565	21,776
Investment property	9	1,357	1,343	130	121
Property, plant and equipment	10	25	27	22	24
Deferred tax assets	5(c)	67	75	67	75
<b>Total assets of policyholders, shareholder, external unitholders and minority interests</b>		<b>27,087</b>	<b>25,725</b>	<b>24,875</b>	<b>24,834</b>
<b>Liabilities</b>					
Payables	11	450	485	478	475
Current tax liabilities		173	122	172	122
Provisions	12	5	3	1	1
Other financial liabilities	8	1,194	1,607	725	1,592
Other liabilities		3	2	-	-
Borrowings	13	513	532	388	399
Deferred tax liabilities	5(d)	386	347	386	347
Investment contract liabilities		3,640	2,660	3,640	2,660
Life insurance contract liabilities	14(e)	17,345	17,762	17,345	17,762
External unitholders' liabilities		1,621	712	-	-
<b>Total liabilities of policyholders, shareholder, external unitholders and minority interests</b>		<b>25,330</b>	<b>24,232</b>	<b>23,135</b>	<b>23,358</b>
<b>Net assets of shareholder and minority interests</b>		<b>1,757</b>	<b>1,493</b>	<b>1,740</b>	<b>1,476</b>
<b>Equity (1)</b>					
Contributed equity		303	303	303	303
Reserves		(34)	(33)	(34)	(33)
Retained earnings	15(g)(iii)	1,471	1,206	1,471	1,206
<b>Total equity attributable to the shareholder of AMP Life Limited</b>		<b>1,740</b>	<b>1,476</b>	<b>1,740</b>	<b>1,476</b>
<b>Non-controlling interests</b>		<b>17</b>	<b>17</b>	<b>-</b>	<b>-</b>
<b>Total equity of the shareholder of AMP Life Limited and non-controlling interests</b>		<b>1,757</b>	<b>1,493</b>	<b>1,740</b>	<b>1,476</b>

Footnote:

(1) Further information on Equity is provided on the Statement of changes in equity on the following page.

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2011

**Consolidated**

	Equity attributable to shareholder of AMP Life Limited				Minority interest	Total equity
	Contributed equity	Reserves	Retained earnings	Total shareholder equity		
	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
<b>31 December 2011</b>						
Balance at the beginning of the year	303	(33)	1,206	1,476	17	1,493
Profit for the year	-	-	437	437	-	437
Other comprehensive income	-	(1)	-	(1)	-	(1)
Total comprehensive income	-	(1)	437	436	-	436
Transfer to AMP Life Limited Shareholder Fund	-	-	(172)	(172)	-	(172)
<b>Balance at the end of the year</b>	<b>303</b>	<b>(34)</b>	<b>1,471</b>	<b>1,740</b>	<b>17</b>	<b>1,757</b>
<b>31 December 2010</b>						
Balance at the beginning of the year	303	(19)	1,222	1,506	31	1,537
Profit for the year	-	-	344	344	(14)	330
Other comprehensive income	-	(14)	-	(14)	-	(14)
Total comprehensive income	-	(14)	344	330	(14)	316
Transfer to AMP Life Limited Shareholder Fund	-	-	(360)	(360)	-	(360)
<b>Balance at the end of the year</b>	<b>303</b>	<b>(33)</b>	<b>1,206</b>	<b>1,476</b>	<b>17</b>	<b>1,493</b>

**Parent**

	Contributed equity	Reserves	Retained earnings	Total shareholder equity
	A\$M	A\$M	A\$M	A\$M
<b>31 December 2011</b>				
Balance at the beginning of the year	303	(33)	1,206	1,476
Profit for the year	-	-	437	437
Other comprehensive income	-	(1)	-	(1)
Total comprehensive income	-	(1)	437	436
Transfer to AMP Life Limited Shareholder Fund	-	-	(172)	(172)
<b>Balance at the end of the year</b>	<b>303</b>	<b>(34)</b>	<b>1,471</b>	<b>1,740</b>
<b>31 December 2010</b>				
Balance at the beginning of the year	303	(19)	1,222	1,506
Profit for the year	-	-	344	344
Other comprehensive income	-	(14)	-	(14)
Total comprehensive income	-	(14)	344	330
Transfer to AMP Life Limited Shareholder Fund	-	-	(360)	(360)
<b>Balance at the end of the year</b>	<b>303</b>	<b>(33)</b>	<b>1,206</b>	<b>1,476</b>

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2011

	Note	Consolidated		Parent	
		2011 A\$M	2010 A\$M	2011 A\$M	2010 A\$M
<b>Cash flows from operating activities</b>					
Cash receipts in the course of operations		1,689	1,949	1,596	1,792
Interest and other items of a similar nature received		814	709	694	671
Dividends and distributions received		776	543	624	543
Cash payments in the course of operations		(1,413)	(3,036)	(2,205)	(3,069)
Finance costs		(84)	(24)	(65)	(16)
Income tax paid		(233)	(13)	(233)	(11)
<b>Cash flows from / (used in) operating activities</b>	<b>18(a)</b>	<b>1,549</b>	<b>128</b>	<b>411</b>	<b>(90)</b>
<b>Cash flows from investing activities</b>					
Net proceeds from sale of/(payments to acquire):					
-Investments in financial assets		(2,080)	462	(947)	808
-investment properties, plant and equipment		(23)	(16)	(9)	(5)
<b>Cash flows from / (used in) investing activities</b>		<b>(2,103)</b>	<b>446</b>	<b>(956)</b>	<b>803</b>
<b>Cash flows from financing activities</b>					
Net repayment of borrowings		(19)	-	(11)	(16)
Transfer of funds to the Shareholders' Fund		-	(232)	-	(232)
<b>Cash flows used in financing activities</b>		<b>(19)</b>	<b>(232)</b>	<b>(11)</b>	<b>(248)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(573)</b>	<b>342</b>	<b>(556)</b>	<b>465</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>5,536</b>	<b>5,194</b>	<b>5,315</b>	<b>4,850</b>
<b>Cash and cash equivalents at end of the year</b>	<b>18(b)</b>	<b>4,963</b>	<b>5,536</b>	<b>4,759</b>	<b>5,315</b>

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the special purpose financial report are set out below. The consolidated economic entity comprises AMP Life Limited Statutory Fund No.1 ('the parent') and all entities controlled by the parent during the year and at the reporting date.

#### (a) Basis of preparation

AMP Life Limited Statutory Fund No.1 ('AMP Life SF1' or 'Statutory Fund') is one of three Statutory Funds which together with a Shareholder's Fund make up AMP Life Limited, a company incorporated in New South Wales and registered under the Australian Life Insurance Act 1995 (Life Act). These financial statements for the year ended 31 December 2011 were authorised by the Directors of AMP Life Limited on 7 May 2012 and have been prepared for the purpose of lodgment with the New Zealand Companies Office in accordance with Section 9A(3) of the New Zealand Financial Reporting Act 1993. They have been prepared on an ongoing basis and in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Financial Report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board.

The significant accounting policies adopted in the preparation of the Financial Report are set out below. These have been consistently applied to the current year and comparative period, unless otherwise stated.

The AMP Life SF1 life insurance operations are conducted as required by the Life Act and are reported in isolation of the other Statutory Funds and Shareholders Fund of AMP Life Limited (i.e. inter-fund transactions and balances are not eliminated). The life insurance operations consist of both non investment-linked and investment-linked business. For policy contracts that include elements of multiple statutory funds, only the components relating to Statutory Fund No.1 are reported in these financial statements

Investment-linked business is business in which the benefit amount of contracts issued is directly linked to the market value of investment assets held within the Statutory Fund in which the policy resides. Whilst the underlying assets are registered in the name of AMP Life Limited and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owners bears the risks and rewards of the investment performance of the underlying assets. AMP Life SF1 derives fee income from the administration of the investment-linked funds.

Non-investment-linked business is business where the insured benefit of an issued contract is not directly linked to the market value of the investments held. These benefits are payable on death, or occurrence of an insured event such as injury, illness or disability. The financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by AMP Life SF1.

AMP Life SF1 is predominantly a life insurance and wealth-management business. Where permitted under accounting standards, the assets and liabilities associated with life insurance and investment contracts are generally measured on a fair value basis and other assets and liabilities are generally measured on a historical basis.

Assets and liabilities have been presented on the face of the Statement of Financial Position in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of AMP Life SF1 are investment assets held to back investment contract and life insurance contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within twelve months of the reporting date are not always known, estimates have been provided in Note 15(f). Details of amounts expected to be recovered or settled (a) no more than twelve months after the reporting date, and (b) more than twelve months after the reporting date, have been provided in footnotes to the relevant notes.

#### Changes in accounting policies

Since 1 January 2011, AMP Life SF1 has adopted a number of Australian accounting standards and Interpretations which are mandatory for annual periods beginning on or after 1 January 2011. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of AMP Life SF1.

The main standards adopted since 1 January 2011 were:

- *AASB 2010-3 Amendments to Australian Accounting standards arising from the Annual Improvements Project and AASB 2010-4*

Further amendments to Australian Accounting Standards arising from the Annual Improvements Project. These standards make a series of minor amendments to various accounting standards. Some changes to the disclosures relating to the credit risk of financial instruments have been made as a result of these amending standards.

- *Revised AASB 124 Related Party Disclosures*: this revised standard includes some minor modifications to the definition of a related party which has resulted in a no change to the transactions and balances which are required to be disclosed in the notes to the financial statements.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

Australian accounting standards issued but not yet effective/Early adoption of Australian accounting standards

A number of new accounting standards and amendments have been issued but not yet effective. AMP Life SF1 has not elected to early adopt any of these new standards or amendments in this Financial Report. These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of AMP Life SF1 other than the following:

- **AASB 9 Financial Instruments:** This standard makes significant changes to the way that financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity. AASB 9 is mandatory for adoption by AMP Life SF1 in the year ending 31 December 2013. The financial impact to AMP Life SF1 of adopting this standard has not yet been quantified.
- **AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities,** the revised **AASB 127 Separate Financial Statements,** the revised **AASB 128 Investments in Associates and Joint Ventures** and **AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.** These standards change the criteria for determining which entities are to be consolidated and which entities are to be accounted for using the equity method in preparing consolidated accounts and the required disclosures in relation to such entities. Each of these standards is mandatory for adoption by AMP Life SF1 in the year ending 31 December 2013. The financial impact on AMP Life SF1 of adopting these standards has not yet been quantified.
- **AASB 13 Fair Value Measurement.** AASB 13 centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards. The new standard requires quantitative and qualitative disclosures of all fair value measurements. AASB 13 is mandatory for adoption by AMP Life SF1 in the year ending 31 December 2013. The financial impact on AMP Life SF1 of adopting AASB 13 has not yet been quantified.
- **Revised AASB 101 Presentation of Financial Statements.** The revised AASB 101 requires items in the Statement of comprehensive income to be segregated between those that will be eventually realised in the income statement in future periods and those that will not. The revised AASB 101 is mandatory for adoption by AMP Life SF1 in the year ending 31 December 2013. The changes to AASB 101 relate to presentation only and are not expected to have a financial impact on AMP Life SF1.

#### *Change in presentation of the Statement of financial position*

The Statement of financial position has been enhanced to show on a gross basis the collateral held by the statutory fund in relation to debt security repurchase agreements and the liability to return this collateral on settlement.

As in prior periods, securities subject to repurchase agreements are not derecognised from the Statement of financial position as the risk and rewards of ownership remain within the investment portfolio. However, collateral received from the counterparty and the liability to return this collateral is now presented on gross basis in the Statement of financial position.

This change has resulted in the following changes to the amounts presented in the financial statements:

- a decrease in Cash and cash equivalents in the Statement of financial position of \$2m (2010: \$0m);
- an increase in Investments in Financial assets measured at fair value through profit or loss in the Statement of financial position of \$639m (2010: \$1,398m);
- an increase in Other financial liabilities in the Statement of financial position of \$637m (2010: \$1,398m);
- an increase in the net payment to acquire investments in financial assets in the Statement of cash flows of \$761m (2010: \$374m increase in net proceeds from sale of investments in financial assets);
- an increase in Cash and cash equivalents at the beginning of the period in the Statement of cash flows of \$1,398m (2010: \$1,024m);
- an increase in the Cash and cash equivalents at the end of the period in the Statement of cash flows of \$637m (2010: \$1,398m).

There is no change to reported net assets or profit. Comparatives have been restated to be consistent with current year disclosures.

#### (b) Principles of consolidation

The financial statements consolidate the financial information of all controlled entities. Control is determined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The majority of the AMP Life SF1 investments are held through a number of unit trusts and companies.

The financial information for controlled entities is prepared for the same reporting period as the parent entity using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to bring these into line.

Consolidation principles require the total amounts of each underlying asset, liability, income and expense of the controlled entities to be recognised in the consolidated financial statements. When a controlled unit trust is consolidated, the share of the unitholder liability attributable to AMP Life SF1 is eliminated but amounts due to external unitholders remain as liabilities in the consolidated Statement of Financial Position. The share of the net assets of controlled companies attributable to non-controlling interests is disclosed as a separate line item on the Statement of financial position. In the Income statement, the profit or loss of AMP Life SF1 is allocated between profit or loss attributable to non-controlling interests and profit or loss attributable to the parent entity.

Controlled entities acquired are accounted for using the acquisition method of accounting. Information from the financial statements of controlled entities is included from the date the parent entity obtains control until such time as control ceases. Where AMP Life SF1 ceases to control an entity, the consolidated financial statements includes the results for the part of the reporting date during which the parent entity had control.

AMP Life SF1 conducts its wealth management and life insurance business (see note 1(c) below) through a Statutory Fund. Income, expenses, assets and liabilities attributable to policyholder activities within this statutory fund are consolidated into AMP Life SF1's financial statements, along with those attributable to the shareholders of the parent entity.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Principles of consolidation (continued)

AMP Life SF1's investments are held through controlling interests in a number of companies and unit trusts. These investment assets are held on behalf of policyholders and the statutory fund recognises a liability to the policyholders valued as described in Note 1(s) for life insurance contract liabilities, and Note 1(r) for investment contract liabilities. In certain cases, the amount of the net assets of the controlled entities recognised in the consolidated financial statements may not match the valuation of the relevant liability to the policyholder which results in certain policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

All inter-company balances and transactions are eliminated in full, including unrealised profits arising from intra-group transactions. However consolidated information expressly excludes cross holdings in the other Statutory Funds and Shareholders Fund of AMP Life Limited. The consideration for acquisitions or disposals of unit trusts reflects the fair value of the investment assets at the date of the transactions after taking into account minority interests.

#### (c) Accounting for wealth management and life insurance business

The accounting treatment of certain transactions in this Financial Report varies depending on the nature of the contract underlying the transactions. The two major contract classifications relevant to the wealth management and insurance business of AMP Life SF1 are investment contracts and life insurance contracts

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

##### *Investment contracts*

The majority of the business of AMP Life SF1 relates to wealth-management products such as savings, investment-linked and retirement income policies. The nature of this business is that AMP Life SF1 receives deposits from policyholders and those funds are invested on behalf of the policyholders. With the exception of fixed retirement income policies, the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. For fixed retirement income policies, the resulting liability is linked to the fair value of the fixed retirement income payments and associated management services

Under accounting standards such contracts are defined as *life investment contracts* and described as *investment contracts* throughout this Financial Report.

##### *Life insurance contracts*

AMP Life SF1 also issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholder is at the discretion of AMP Life SF1. These policies are referred to as discretionary participating contracts.

Under accounting standards such contracts are defined as *life insurance contracts*.

##### *Assets measurement basis*

Assets backing investment contract and life insurance contract liabilities are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards.

Life insurance contract liabilities are measured as described in Note 1(s) and investment contract liabilities are measured at fair value, per Note 1(r). Assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Income statement, to the extent permitted under Australian Accounting Standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described later in Note 1.

All assets that back investment contract and life insurance contract liabilities are included within AMP Life SF1 and, as such, are separately identifiable.

To ensure consistency across AMP Life SF1, and except where specifically stated otherwise, all financial assets and all non-financial assets, including those not backing investment or insurance contract liabilities, are recognised at fair value through profit or loss to the extent permitted under accounting standards. Similarly, adjustments to the value of such assets are recognised in the Income statement when the corresponding accounting standards allow such treatment. The accounting policy for the parent entity's investments in controlled entities is set out in Note 1(f).

#### (d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are measured at fair value. For the purpose of the Statement of cash flows, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in the Statement of financial position.

#### (e) Receivables

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



## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Investments in financial assets

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

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

Subsequent to initial recognition, fair value of investments measured at fair value through profit or loss is determined as follows:

- The fair value of equity securities in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, a fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
- The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
- The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment scheme at the reporting date.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 1(p).

There is no reduction for realisation costs in determining the fair value of financial assets measured at fair value through profit or loss.

##### *Investments in controlled entities*

Investments in controlled entities by AMP Life SF1 that back investment contract and life insurance contract liabilities are treated as financial assets. These are valued in the same manner as equity securities described in this note.

##### *Investments in financial assets measured at amortised cost*

Investments in financial assets measured at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. These assets (primarily loans) are subsequently recognised at amortised cost.

#### (g) Associated entities

Associated entities are defined as those entities over which AMP Life SF1 has significant influence but there is no capacity to control. Investment in associates, other than those backing investment contracts and life insurance contracts, are measured at cost plus any excess of the fair value of AMP Life SF1's share of identifiable assets and liabilities above cost at acquisition date subsequently adjusted for AMP Life SF1's share of post-acquisition profit or loss and movements in reserves net of any impairment. Any dividend or distribution received from associates is accounted for as a reduction in carrying value of the associate.

Investments in associated entities held to back life insurance or life investment contract liabilities are exempt from the requirement to apply equity accounting and have been designated on initial recognition as financial assets measured at fair value through profit or loss. These are valued in the same manner as equity securities described in Note 1(f).

#### (h) Investment property

Investment property is held to earn revenue from rentals and/or for the purposes of capital appreciation. Investment property includes all directly held freehold and leasehold properties. There are no property interests held under operating leases accounted for as investment property.

Investment property is initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value.

Changes in value of investment property are taken directly to the Income statement and may comprise changes in the fair value from revaluation of investment property, and fair value adjustments in relation to:

- the straight-lining of fixed rental income
- tenant incentives including rent free periods, landlord and tenant owned fit out contributions, and
- capitalised leasing fees.

The process adopted to determine fair values for investment properties is set out in note 9.

#### (i) Property, plant and equipment

Property, plant and equipment is initially measured at cost, including transaction costs. It is subsequently measured at cost less any subsequent accumulated depreciation and accumulated impairment losses. The written down amount approximates fair value.

Each item of property, plant and equipment is depreciated on a systematic basis over the useful life of the asset of between 3-10 years.

Leasehold improvements are recognised as an asset only when it is probable that future economic benefits associated with the asset will flow to AMP Life SF1 and the cost of the item can be reliably measured.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Other assets including inventories

Other assets mainly comprise inventories, prepayments and other similar assets. Inventories are predominately finished goods, which are stated at the lower of cost (determined on a first in first out basis) and net realisable value. Cost includes the cost of direct material, direct labour and a proportion of overhead expenses incurred in putting the inventories in their present location and condition based on normal capacity.

#### (k) Impairment of assets

Assets measured at fair value, where changes in value are reflected in the income statement, are not subject to impairment testing. As a result, all financial assets and investment properties are not subject to impairment testing. Other assets such as property, plant and equipment and inventory are subject to impairment testing.

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

Any impairment loss, being the amount by which the carrying amount of an asset exceeds its recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

#### (l) Taxes

##### *Tax consolidation*

AMP Limited and its wholly-owned Australian controlled entities which are Australian domiciled companies (including AMP Life Limited) comprise a tax-consolidated group of which AMP Limited is the head entity. The implementation date for the tax consolidated group was 30 June 2003.

Under tax consolidation, AMP Limited as head entity, assumes the following balances from subsidiaries within the tax-consolidated group:

- current tax balances arising from external transactions recognised by entities in the tax-consolidated group, occurring after the implementation date
- deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated group

A tax funding agreement has been entered into by the head entity and the controlled entities in the tax-consolidated group. Controlled entities in the tax-consolidated group continue to be responsible, by the operation of the tax funding agreement, for funding tax payments required to be made by the head entity arising from underlying transactions of the controlled entities. Controlled entities make (receive) contributions to (from) the head entity for the balances assumed by the head entity, as described above. The contributions are calculated in accordance with the tax funding agreement. The contributions are payable as set out in the agreement and reflect the timing of AMP Limited's obligations to make payments to the Australian Taxation Office.

Assets and liabilities which arise as a result of balances transferred from entities within the tax-consolidated group to the head entity are recognised as related party balances receivable and payable in the Statement of financial position of AMP Life SF1. The recoverability of balances arising from the tax funding arrangements is based on the ability of the tax consolidated group to utilise the amounts recognised by the head entity.

##### *Income tax expense*

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to:

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

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

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

##### *Income tax for investment contracts and life insurance contracts business*

The income tax expense recognised in the income statement arising in AMP Life SF1 reflects tax imposed on shareholders as well as policyholders.

Investment contracts and life insurance contract liabilities are established in Australia net, and in New Zealand gross, of the policyholders' share of any current tax payable and deferred tax balances of AMP Life SF1.

Arrangements made with some superannuation funds result in AMP Life SF1 making payments to the Australian Taxation Office in relation to contributions tax arising in those funds. The amounts paid are recognized as a decrease in investment contract liabilities and not included in income tax expense.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Taxes (continued)

##### *Deferred tax*

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax, including amounts in respect of investment contracts and life insurance contracts, is not discounted to present value.

##### *Goods and services tax*

AMP Life SF1 operates across a number of tax jurisdictions and offers products and services which may be subject to various forms of goods and services tax (GST) imposed by local tax authorities.

All income, expenses and assets are recognised net of any GST paid, except where they relate to products and services that are input taxed for GST purposes or where the GST incurred is not recoverable from the relevant tax authorities. In such circumstances, the GST paid is recognised as part of the cost of acquisition of the assets or as part of the particular expense.

Receivables and payables are recorded with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as either a receivable or payable in the Statement of financial position.

Cash flows are reported on a gross basis reflecting any GST paid or collected. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, local tax authorities are classified as *operating cash flows*.

#### (m) Payables

Payables that back investment contract and life insurance contract liabilities are financial liabilities and are measured at fair value. Other payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount approximates fair value.

#### (n) Provisions

Provisions are recognised when:

- AMP Life SF1 has a present obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

Where AMP Life SF1 expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income statement net of any reimbursement.

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

#### (o) Borrowings

All borrowings are financial liabilities and are initially recognised at fair value.

Where the borrowings of a controlled unit trust are measured at amortised cost for the purpose of determining the unit price of that trust, these borrowings are also measured at amortised cost in this financial report with any difference between the proceeds (net of transaction costs) and the redemption amount recognised in the Income statement over the period of the contract using the effective interest rate method. All of the borrowings of controlled entities are subsequently measured at fair value through profit or loss.

#### (p) Derivatives and hedging

AMP Life SF1 is exposed to changes in interest and foreign exchange rates. To mitigate the risks arising from these exposures, AMP Life SF1 uses derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts. Derivative financial instruments are also used to gain exposure to various markets for assets and liability management purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. All derivatives are recognised as assets when their fair value is positive, and as liabilities when their fair value is negative.

# Notes to the Financial Statements

For the year ended 31 December 2011

## 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Derivatives and hedging (continued)

#### *Fair value estimation*

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting date. The quoted market price used is the current bid price; the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present-value techniques, option pricing models, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments.

### (q) Recognition and derecognition of financial instruments

Financial assets are recognised at the date AMP Life SF1 becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### (r) Investment contract liabilities

Investment contracts consist of a financial instrument and an investment management services element, both of which are measured at fair value. With the exception of fixed retirement-income policies, the resulting liability to policyholders is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the post tax fair value of these assets (after tax) charged to the policyholders except where this is an accounting mismatch.

For fixed retirement-income policies, the financial instrument element of the liability is the fair value of the fixed retirement-income payments, being their net present value using a risk-free discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon. The risk-free discount rate is determined by the Appointed Actuary based on the Zero Coupon Commonwealth Government bond curve plus a margin, depending on the nature, structure and terms of the contract liabilities.

### (s) Life insurance contract liabilities

The financial reporting methodology used to determine the life insurance contract liabilities is referred to as *Margin on Services (MoS)*.

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

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

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

#### *Allocation of operating profit and unvested policyholder benefits*

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995 (Life Act)*.

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to shareholders is only allowed for overseas business with specific approval of the regulators.

Profit allocated to participating policyholders is recognised in the Income statement as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested), and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested), are included within life insurance contract liabilities.

Bonus distributions to participating policyholders are merely a change in the nature of the liability from unvested to vested and, as such, do not alter the amount of profit attributable to shareholders.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Life insurance contract liabilities (continued)

##### *Allocation of operating profit and unvested policyholder benefits(continued)*

The principles of allocation of the profit arising from discretionary participating business determined under the Life Act and MoS are as follows:

- (i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings, being 80:20.
- (ii) Other MoS profits arising from discretionary participating business (excluding the additional tax attributable to shareholders in respect of Australian superannuation business) are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
  - The profit arising from New Zealand corporate superannuation business is apportioned such that shareholders are allocated 15% of the profit allocated to policyholders.
  - The profit arising in respect of Preservation Superannuation Account business is allocated 92.5% to policyholders and 7.5% to shareholders.
- (iii) Additional tax on taxable income to shareholders in respect of Australian superannuation business is allocated to shareholders only.
- (iv) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in the Statutory Fund (excluding retained earnings dealt with in (i) above) are allocated to shareholders.

##### *Allocation of expenses within the Statutory Fund*

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

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

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

Investment management expenses of AMP Life SF1 are classified as other operating expenses. See Note 1 (y).

#### (t) Foreign currency transactions

##### *Functional and presentation currency*

The Financial Report is presented in Australian dollars (the presentation currency). Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent entity is Australian dollars.

##### *Transactions and balances*

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date, with exchange gains and losses recognised in the Income statement.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

##### *Translation of controlled entities*

Where the functional currency of a controlled entity is not the presentational currency, the transactions and balances of that entity are translated as follows:

- income and expenses are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. In this case, income and expenses are translated at the dates of the transactions.
- assets and liabilities are translated at the closing rate at the reporting date.
- all resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

When a foreign operation is sold, the cumulative amount in the foreign currency translation reserve relating to that operation is recognised in the Income statement as part of the gain or loss on sale. If a portion of the operation is sold, the proportionate share of the cumulative amount is recognised.

#### (u) Insurance premium and related revenue

##### *Life insurance contracts*

Life insurance contract premiums are separated into their revenue and deposit components. Premium amounts earned by bearing insurance risks are recognised as revenue. Other premium amounts received, which are in the nature of deposits, are recognised as an increase in life insurance contract liabilities.

Premiums with no due date or fixed amount are recognised on a cash-received basis. Premiums with a regular due date are recognised on an accruals basis. Unpaid premiums are only recognised during the days of grace or where secured by the surrender value of the life insurance contract and are reported as outstanding premiums and classified as receivables in the Statement of financial position.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Insurance premium and related revenue (continued)

##### *Investment contracts*

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

- origination fees and ongoing investment management fees. See Note 1(v).
- amounts credited directly to investment contract liabilities. See Note 1(r).

#### (v) Fee and other revenue

Fees are charged to customers in connection with investment contracts and other financial services contracts. Revenue is recognised as services are provided. In some cases services are provided at the inception of the contract while other services are performed over the life of the contract.

Investment contracts consist of a financial instrument and an investment-management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on commission paid to financial planners for providing initial advice. The financial instrument is classified as an investment contract and is measured at fair value. See Note 1(r).

The revenue that can be attributed to the origination service is recognised at inception. Any amounts paid to financial planners is also recognised as an expense at that time. See Note 1(y).

Fees for ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as income as the service is provided.

Fees charged for performing a significant act in relation to funds managed by AMP Life SF1 are recognised as revenue when that act has been completed.

#### (w) Investment gains or losses

Dividend and interest income is recognised in the income statement on an accruals basis when AMP Life SF1 obtains control of the right to receive the revenue.

Realised and unrealised gains and losses include realised gains and losses being the change in value between the previously reported value and the amount received on sale of the asset, and unrealised gains and losses being changes in the fair value of financial assets recognised in the period.

Rents raised are on terms in accordance with individual leases, however they are generally due on the first day of each month.

Certain tenant allowances that are classified as lease incentives such as rent-free periods, fit-outs and upfront payments are capitalised and amortised over the term of the lease. The aggregate cost of incentives is recognised as a reduction to revenue from rent over the lease term.

#### (x) Insurance claims and related expense

##### *Life insurance contracts*

Life insurance contract claims are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the life insurance contract has been established or upon notification of the insured event, depending on the type of claim.

##### *Investment contracts*

There is no claims expense in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities. See Note 1(r).

#### (y) Operating expenses

All operating expenses, other than those allocated to life insurance contracts, see Note 1(s), are expensed as incurred.

Expenses of controlled entities of the Statutory Fund represent the business costs of those entities and are consolidated into the results of AMP Life SF1.

The majority of investment contracts issued result in payments to external service and advice providers. Where the amount paid equates to a fee charged to policyholders for the provision of advice, the amount is expensed either at inception or over the period of the contract consistent with the basis for recognising the fee revenue on the respective contracts. See Note 1(v).

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term or other systematic basis representative of the patterns of the benefits obtained. Operating incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (z) Finance costs

Finance costs include:

##### (i) Borrowing costs:

- interest on bank overdrafts and borrowings
- amortisation of discounts or premiums related to borrowings

(ii) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

Borrowing costs are recognised as expenses when incurred.

### 2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements. Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events. Significant accounting judgements, estimates and assumptions include but are not limited to:

#### (a) Fair value of investments in financial assets

AMP Life SF1 measures investments in financial assets at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair value of financial instruments is set out in note 16.

#### (b) Fair values of investment properties

AMP Life SF1 measures investment properties at fair value through profit or loss. The valuation of investment properties requires judgement to be applied in selecting appropriate valuation techniques and setting valuation assumptions. AMP Life SF1 engages independent registered valuers to value each of its investment properties on a rolling annual basis. Further detail on the determination of fair values of investment properties is set out in note 9.

#### (c) Tax

AMP Life SF1 is subject to taxes in Australia and other jurisdictions where it has operations. The application of tax law to the specific circumstances and transactions of AMP Life SF1 requires the exercise of judgement by management. The tax treatments adopted by management in preparing the financial statements may be impacted by changes in legislation and interpretations or be subject to challenge by tax authorities.

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

#### (d) Provisions

A provision is recognised for items where AMP Life SF1 has a present obligation arising from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is measured as the best estimate of the expenditure required to settle the present obligation. Management apply judgement in assessing whether a particular item satisfies the above criteria and in determining the best estimate. Note 12 sets out further information on provisions and Note 21 provides information of contingent liabilities.

#### (e) Insurance contract liabilities

The measurement of insurance contract liabilities is determined using the Margin on Services (MoS) methodology. The determination of the liability amounts involves judgement in selecting the valuation methods and profit carriers for each type of business and setting valuation assumptions. The determination is subjective and relatively small changes in assumptions may have a significant impact on the reported profit. The appointed actuary of AMP Life SF1 is responsible for these judgements and assumptions. Further detail on the determination of insurance contract liabilities is set out in note 14.

#### (f) Investment contract liabilities

Investment contract liabilities are measured at fair value. For the majority of contracts, the fair value is determined based on published unit prices and do not generally require the exercise of judgement. For fixed income products, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions. Further details on investment contract liabilities are set out in Note 15.

**Notes to the Financial Statements**

For the year ended 31 December 2011

**3. INCOME**

	Note	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
<b>(a) Life Insurance premium and related revenue</b>					
Life insurance contract premium and related revenue	14(a)	1,140	1,100	1,140	1,100
<b>Total life insurance premium and related revenue</b>		<b>1,140</b>	<b>1,100</b>	<b>1,140</b>	<b>1,100</b>
<b>(b) Fee and other revenue</b>					
Investment management and origination fees					
- related entities		6	2	7	10
- other entities		36	34	37	33
Other revenue <sup>(1)</sup>		12	14	-	2
<b>Total fee and other revenue</b>		<b>54</b>	<b>50</b>	<b>44</b>	<b>45</b>
<b>(c) Investment gains and (losses)</b>					
Interest <sup>(2)</sup>					
- related entities		137	104	138	106
- other entities		684	622	585	558
Dividends and distributions					
- related entities		252	152	315	270
- associated entities		70	22	60	14
- other entities		443	365	274	232
Rental income					
- other entities		114	109	11	8
Net realised and unrealised gains and losses <sup>(3)</sup>		(20)	(197)	210	32
Other investment income		9	(1)	5	8
<b>Total investment gains and (losses)</b>		<b>1,689</b>	<b>1,176</b>	<b>1,598</b>	<b>1,228</b>

**Footnote:**

<sup>(1)</sup> Consolidated other revenue includes trading revenue of investment entities controlled by the AMP Life SF1 which carry out business operations unrelated to the core wealth management operations of the AMP Life SF1 group.

<sup>(2)</sup> Interest includes interest income from financial assets measured at fair value through profit or loss, designated as such upon initial recognition.

<sup>(3)</sup> Net realised and unrealised gains and losses include net gains and losses on financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition.



**Notes to the Financial Statements**

For the year ended 31 December 2011

**4. EXPENSES**

	Note	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
<b>(a) Life insurance claims and related expenses</b>					
Life insurance contract claims and related expenses	14(b)	1,228	1,289	1,228	1,289
<b>Total life insurance claims and related expenses</b>		<b>1,228</b>	<b>1,289</b>	<b>1,228</b>	<b>1,289</b>
<b>(b) Operating expenses</b>					
Commission expense		154	156	154	156
Investment management fees					
- related entities		71	67	57	62
- other entities		11	7	5	5
<b>Fee and commission expenses <sup>(1)</sup></b>		<b>236</b>	<b>230</b>	<b>216</b>	<b>223</b>
Depreciation		9	10	9	10
Direct property expenses <sup>(2)</sup>		31	23	4	5
Service fee expense					
- related entities		361	351	361	351
- other entities		-	-	-	-
Other expenses		48	49	38	28
<b>Other operating expenses <sup>(3)</sup></b>		<b>449</b>	<b>433</b>	<b>412</b>	<b>394</b>
<b>Total operating expenses</b>		<b>685</b>	<b>663</b>	<b>628</b>	<b>617</b>
<b>(c) Finance costs</b>					
Interest expense on borrowings		74	20	54	3
Other finance costs		10	4	11	13
<b>Total finance costs</b>		<b>84</b>	<b>24</b>	<b>65</b>	<b>16</b>

**Footnote:**

<sup>(1)</sup> Fee and commission expenses include fee expenses from trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement plans, and other institutions.

<sup>(2)</sup> Direct property expenses relate to investment properties which generate rental income.

<sup>(3)</sup> Other expenses include trading expenses of investment entities controlled by AMP Life SF1 which carry out business operations unrelated to the core wealth management operations of the AMP Life group

## Notes to the Financial Statements

For the year ended 31 December 2011

### 5. INCOME TAX

	Consolidated		Parent	
	2011	2010	2011	2010
	A\$M	A\$M	A\$M	A\$M
<b>(a) Analysis of income tax expense</b>				
Current tax expense	(279)	(187)	(279)	(187)
Increase (decrease) in deferred tax assets	(8)	11	(8)	11
(Increase) decrease in deferred tax liabilities	(39)	(4)	(39)	(4)
Over (under) provided in previous years including amounts attributable to policyholders	-	(2)	-	(2)
Effect of change in overseas tax rate	(1)	7	(1)	7
<b>Income tax expense</b>	<b>(327)</b>	<b>(175)</b>	<b>(327)</b>	<b>(175)</b>

#### (b) Relationship between income tax expense and accounting profit

The following table provides a reconciliation of differences between prima facie tax calculated as 30 per cent of the profit before income tax for the year and the actual income tax expense recognised in the Income statement for the year. The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders.

In respect of income tax expense attributable to shareholders, the tax rate which applies in Australia is 30 per cent (2010: 30 per cent). From 1 January 2011 the company tax rate in New Zealand changed from 30 per cent to 28 per cent. There are certain differences between the amounts of income and expenses recognised in the financial statements and the amounts recognised for income tax purposes.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15 per cent, and certain classes of income on some annuity business are tax exempt. The rate applicable to New Zealand life insurance business during the year was 28 per cent (2010: 30 per cent).

	Consolidated		Parent	
	2011	2010	2011	2010
	A\$M	A\$M	A\$M	A\$M
Profit before income tax	764	505	764	519
Policyholder tax expense recognised as part of the change to policyholders liabilities in determining profit before income tax	(140)	(50)	(140)	(50)
<b>Profit before income tax excluding policyholder tax</b>	<b>624</b>	<b>455</b>	<b>624</b>	<b>469</b>
Prima facie tax at the rate 30 per cent	(187)	(137)	(187)	(141)
Tax effect of differences between recognition of Income statement items for accounting and those deductible/assessable in calculating taxable income:				
Non deductible / assessable items	30	51	22	21
Under/(over) provision in previous years	1	(7)	1	(7)
Tax offsets and credits	-	5	-	5
Deferred tax write down due to change in tax rate	3	7	2	7
Other	(34)	(44)	(25)	(10)
<b>Income expense attributable to shareholders</b>	<b>(187)</b>	<b>(125)</b>	<b>(187)</b>	<b>(125)</b>
<b>Income tax expense attributable to policyholders</b>	<b>(140)</b>	<b>(50)</b>	<b>(140)</b>	<b>(50)</b>
<b>Income tax expense per Income statement</b>	<b>(327)</b>	<b>(175)</b>	<b>(327)</b>	<b>(175)</b>

#### (c) Analysis of deferred tax asset

- Losses available for offset against future taxable income	15	12	15	12
- Other	52	63	52	63
<b>Total deferred tax assets</b>	<b>67</b>	<b>75</b>	<b>67</b>	<b>75</b>

#### (d) Analysis of deferred tax liability

- Unrealised investment gains	258	243	258	243
- Other	128	104	128	104
<b>Total deferred tax liabilities</b>	<b>386</b>	<b>347</b>	<b>386</b>	<b>347</b>

**Notes to the Financial Statements**

For the year ended 31 December 2011

**6. RECEIVABLES**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
Investment income receivable	50	56	54	58
Investment sales and margin accounts receivable	174	3	170	-
Life insurance contract premiums receivable	277	271	277	271
Reinsurance and other recoveries available	11	8	11	8
Reinsurers' share of life insurance contract liabilities	98	65	98	65
Other receivables				
- related entities	202	165	206	150
- other entities	70	34	58	11
<b>Total receivables<sup>(1)</sup></b>	<b>882</b>	<b>602</b>	<b>874</b>	<b>563</b>

Footnote:

<sup>(1)</sup> \$86m of receivables are non current (2010: \$56m)**7. OTHER ASSETS**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
Inventories	10	8	-	-
Prepayments	2	2	1	1
Other assets	4	8	-	-
<b>Total other assets<sup>(1)</sup></b>	<b>16</b>	<b>18</b>	<b>1</b>	<b>1</b>

Footnote:

<sup>(1)</sup> \$4m of other assets are non current (2010: \$4m).**8. INVESTMENT IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
<b>Investments in financial assets measured at fair value through profit and loss</b>				
Equity securities and listed managed investment schemes	4,132	4,042	3,351	3,698
Debt securities <sup>(1)</sup>	11,225	9,386	9,206	10,747
Investments in unlisted managed investment schemes	4,957	7,267	6,269	5,757
Derivative financial assets	960	403	494	358
Other financial assets <sup>(2)</sup>	4	-	4	-
<b>Total investments in financial assets at fair value through profit and loss</b>	<b>21,278</b>	<b>21,098</b>	<b>19,324</b>	<b>20,560</b>
<b>Investments in controlled entities</b>				
Measured at fair value	-	-	1,241	1,216
<b>Total investments in controlled entities</b>	<b>-</b>	<b>-</b>	<b>1,241</b>	<b>1,216</b>
<b>Investments in financial assets measured at amortised cost</b>				
Loans	42	67	-	-
<b>Total investments in financial assets measured at amortised cost</b>	<b>42</b>	<b>67</b>	<b>-</b>	<b>-</b>
<b>Total investments in financial assets</b>	<b>21,320</b>	<b>21,165</b>	<b>20,565</b>	<b>21,776</b>

Footnote:

<sup>(1)</sup> Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life statutory fund.<sup>(2)</sup> Other financial assets primarily consists of policyholder investments in an external life insurance fund.

**Notes to the Financial Statements**

For the year ended 31 December 2011

**8. INVESTMENT IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES (continued)**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
Other financial liabilities	557	209	88	194
Collateral deposits held <sup>(1)</sup>	637	1,398	637	1,398
<b>Total other financial liabilities</b>	<b>1,194</b>	<b>1,607</b>	<b>725</b>	<b>1,592</b>

**Footnote:**

<sup>(1)</sup> Collateral deposits held represents the obligation to repay collateral held in respect of debt security repurchase arrangements entered into by the statutory fund.

**9. INVESTMENT PROPERTY**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
Investment property <sup>(1)</sup>				
Directly held	1,357	1,343	130	121
<b>Total investment property</b>	<b>1,357</b>	<b>1,343</b>	<b>130</b>	<b>121</b>
<b>Movements in investment property</b>				
Balance at the beginning of the year	1,343	1,341	121	122
Additions				
- subsequent expenditure recognised in carrying amount	16	13	2	2
Net (losses) / gains from fair value adjustments	(2)	(11)	7	(3)
<b>Balance at the end of the year</b>	<b>1,357</b>	<b>1,343</b>	<b>130</b>	<b>121</b>

**Footnote:**

<sup>(1)</sup> Investment property is measured at fair value with changes in value recognized through profit or loss.

**Valuation of investment property**

Investment property is measured at fair value at each reporting date. Fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.

Fair values of the AMP Life SF1's properties are determined by independent registered valuers who have appropriate registered professional qualifications and recent experience in the location and category of the property being valued.

The fair value appraisals are obtained on a rolling annual basis. The valuation schedule may be altered when a property is either undergoing or being appraised for redevelopment, refurbishment or sale, or is experiencing other changes in assets or tenant profiles which may significantly impact value; or when there have been significant changes in the property market and broader economy such as updates to comparable property sales which may have an impact on the individual asset values. The carrying value of each investment property is assessed at reporting date to ensure there has been no material change to the fair value since the valuation date.

The valuers apply 'comparable sales analysis' and the 'capitalised income approach' by reference to annual net market income, comparable capitalisation rates and other property-specific adjustments as well as discounted cash flow analysis where the expected net cash flows are discounted to their present value using a market determined risk adjusted discount rate. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property.

	2011	2010
<b>Primary assumptions used in valuing investment property</b>		
Capitalisation rates	6.00% - 10.25%	6.25% - 9.75%
Market determined, risk adjusted discount rate	9.00% - 13.00%	7.00% - 10.35%

**Notes to the Financial Statements**

For the year ended 31 December 2011

**10. PROPERTY, PLANT AND EQUIPMENT**

2011 – Consolidated	Leasehold Improvements A\$M	Plant & Equipment A\$M	Total A\$M
<b>Property, plant and equipment</b>			
Gross carrying amount	65	81	146
Less: accumulated depreciation and impairment losses	(56)	(65)	(121)
<b>Property, plant and equipment at written down value</b>	<b>9</b>	<b>16</b>	<b>25</b>
<b>Movements in property, plant and equipment</b>			
Balance at the beginning of the year	9	18	27
Additions			
- through direct acquisitions	4	3	7
Depreciation expense for the year	(4)	(5)	(9)
<b>Balance at the end of the year</b>	<b>9</b>	<b>16</b>	<b>25</b>
<b>2010 – Consolidated</b>	<b>Leasehold Improvements A\$M</b>	<b>Plant &amp; Equipment A\$M</b>	<b>Total A\$M</b>
<b>Property, plant and equipment</b>			
Gross carrying amount	61	78	139
Less: accumulated depreciation and impairment losses	(52)	(60)	(112)
<b>Property, plant and equipment at written down value</b>	<b>9</b>	<b>18</b>	<b>27</b>
<b>Movements in property, plant and equipment</b>			
Balance at the beginning of the year	13	21	34
Additions			
- through direct acquisitions	-	3	3
Depreciation expense for the year	(4)	(6)	(10)
<b>Balance at the end of the year</b>	<b>9</b>	<b>18</b>	<b>27</b>
<b>2011 – Parent</b>	<b>Leasehold Improvements A\$M</b>	<b>Plant &amp; Equipment A\$M</b>	<b>Total A\$M</b>
<b>Property, plant and equipment</b>			
Gross carrying amount	65	69	134
Less: accumulated depreciation and impairment losses	(56)	(56)	(112)
<b>Property, plant and equipment at written down value</b>	<b>9</b>	<b>13</b>	<b>22</b>
<b>Movements in property, plant and equipment</b>			
Balance at the beginning of the year	9	15	24
Additions			
- through direct acquisitions	4	3	7
Depreciation expense for the year	(4)	(5)	(9)
<b>Balance at the end of the year</b>	<b>9</b>	<b>13</b>	<b>22</b>
<b>2010 – Parent</b>	<b>Leasehold Improvements A\$M</b>	<b>Plant &amp; Equipment A\$M</b>	<b>Total A\$M</b>
<b>Property, plant and equipment</b>			
Gross carrying amount	61	66	127
Less: accumulated depreciation and impairment losses	(52)	(51)	(103)
<b>Property, plant and equipment at written down value</b>	<b>9</b>	<b>15</b>	<b>24</b>
<b>Movements in property, plant and equipment</b>			
Balance at the beginning of the year	13	18	31
Additions			
- through direct acquisitions	-	3	3
Depreciation expense for the year	(4)	(6)	(10)
<b>Balance at the end of the year</b>	<b>9</b>	<b>15</b>	<b>24</b>

**Notes to the Financial Statements**

For the year ended 31 December 2011

**11. PAYABLES**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
Life insurance policies in process of settlement	144	117	144	117
Accrued expenses	9	6	8	6
Interest payable	4	2	2	-
Other payables				
- related entities	221	273	268	294
- other entities	72	87	56	58
<b>Total payables <sup>(1)</sup></b>	<b>450</b>	<b>485</b>	<b>478</b>	<b>475</b>

Footnote:

<sup>(1)</sup> \$1m of payables (consolidated only) are non current (2010: \$2m, consolidated and parent).**12. PROVISIONS**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
<b>Provisions</b>				
Systems and other project expenditure	5	3	1	1
<b>Total provisions <sup>(1)</sup></b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>1</b>
<b>Movements in provisions</b>				
Balance at the beginning of the year	3	4	1	1
Additional provisions recognised	3	20	1	1
Payments / other sacrifices of economic benefits	(1)	(21)	(1)	(1)
<b>Balance at the end of the year <sup>(1)</sup></b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>1</b>

Footnote:

<sup>(1)</sup> All provisions are current (2010: 100% current).**13. BORROWINGS**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
<b>Borrowings</b>				
Bank loans	3	2	-	-
Deposits				
- other entities	127	139	127	139
Other borrowings				
- related entities	169	184	261	260
- other entities	214	207	-	-
<b>Total borrowings <sup>(1)</sup></b>	<b>513</b>	<b>532</b>	<b>388</b>	<b>399</b>

Footnote:

<sup>(1)</sup> \$213m of borrowings (consolidated only) are non current (2010: \$nil, consolidated and parent).

**Notes to the Financial Statements**

For the year ended 31 December 2011

**14. LIFE INSURANCE CONTRACTS**

	Note	Consolidated and Parent 2011 A\$M	Consolidated and Parent 2010 A\$M
<b>(a) Analysis of life insurance contract premium and related revenue</b>			
Total life insurance contract premiums received and receivable		1,795	1,802
Less: component recognised as a change in life insurance contract liabilities	14(e)	(693)	(751)
Life insurance contract premium revenue <sup>(1)</sup>		1,102	1,051
Reinsurance recoveries		38	49
<b>Total life insurance contract premium and related revenue</b>		<b>1,140</b>	<b>1,100</b>
<b>(b) Analysis of life insurance contract claims and related expenses</b>			
Total life insurance contract claims paid and payable		(2,245)	(2,344)
Less: component recognised as a change in life insurance contract liabilities	14(e)	1,059	1,103
Life insurance contract claims expenses		(1,186)	(1,241)
Outwards reinsurance expense		(42)	(48)
<b>Total life insurance contract claims and related expenses</b>		<b>(1,228)</b>	<b>(1,289)</b>
<b>(c) Analysis of life insurance contract operating expenses</b>			
Life insurance contract acquisition expenses			
- Commission		(58)	(56)
- Other		(88)	(88)
Life insurance contract maintenance expenses			
- Commission		(95)	(91)
- Other		(292)	(286)
Investment management expenses		(41)	(39)
<b>(d) Life insurance contract liabilities</b>			
<b>Life insurance contract liabilities determined using projection method</b>			
Best estimate liability			
- Value of future life insurance contract benefits		12,339	10,765
- Value of future expenses		3,132	2,697
- Value of future premiums		(11,479)	(9,595)
Value of future profits			
- Life insurance contract holder bonuses		1,657	2,021
- Shareholders' profit margins		2,554	2,439
<b>Total life insurance contract liabilities determined using the projection method</b>		<b>8,203</b>	<b>8,327</b>
<b>Life insurance contract liabilities determined using the accumulation method</b>			
Best estimate liability			
- Value of future life insurance contract benefits		7,447	7,664
- Value of future acquisition expenses		(7)	(9)
<b>Total life insurance contract liabilities determined using the accumulation method</b>		<b>7,440</b>	<b>7,655</b>
Value of declared bonus		338	338
Unvested life insurance contract holder benefits <sup>(2)</sup>		1,266	1,377
<b>Total life insurance contract liabilities before reinsurance</b>		<b>17,247</b>	<b>17,697</b>
Add: Reinsurers share of life insurance contract liabilities		98	65
<b>Total life insurance contract liabilities</b>		<b>17,345</b>	<b>17,762</b>

**Footnote:**<sup>(1)</sup> Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.<sup>(2)</sup> For participating business in AMP Life SF1, part of the assets in excess of the life insurance contract and other liabilities calculated under MoS are attributed to policyholders. Under the Life Act, this is referred to as policyholder retained profits. For the purpose of reporting under accounting standards, this amount is referred to as unvested life insurance contract holder benefits and is included within life insurance contract liabilities even though it is yet to be vested in specific policyholder entitlements.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 14. LIFE INSURANCE CONTRACTS (continued)

	Note	Consolidated and Parent 2011 A\$M	Consolidated and Parent 2010 A\$M
<b>(e) Reconciliation of changes in life insurance contract liabilities</b>			
Total life insurance contract liabilities at the beginning of the year		17,762	18,380
Change in life insurance contract liabilities recognised in the Income statement		(82)	(202)
Premiums recognised as an increase in life insurance contract liabilities	14(a)	693	751
Claims recognised as a decrease in life insurance contract liabilities	14(b)	(1,059)	(1,103)
Change in reinsurers share of life insurance contract liabilities		32	21
Foreign exchange adjustment		(1)	(85)
<b>Total life insurance contract liabilities at the end of the year</b>	<b>14(d)</b>	<b>17,345</b>	<b>17,762</b>

#### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to note 1(s) for a description of MoS and the methods for calculating life insurance contract liabilities.

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

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment Account	Modified Accumulation	N/A
Risk (lump sum)	Projection / Accumulation	Expected premiums
Risk (income benefits)	Projection / Accumulation	Expected claims
Participating Allocated Annuities	Accumulation / Modified Accumulation	N/A
Life Annuities	Projection	Annuity payments

Key assumptions used in the calculation of life insurance contract liabilities are as follows:

#### (i) Risk Free Discount rates

Except where benefits are contractually linked to the performance of the assets held, a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations is used. The rates are determined as shown in the following table <sup>(1)</sup>.

Business Type	Basis	31 December 2011		31 December 2010	
		Australia	New Zealand	Australia	New Zealand
Retail risk (other than income protection open claims)	10 year government bond rate	n/a	n/a	5.5%	6.0%
	Zero coupon government bond curve	3.2% - 4.6%	2.5% - 4.1%	n/a	n/a
Group and retail risk (Income protection open claims)	2 year government bond rate	n/a	n/a	5.2%	n/a
	10 year government bond rate (+30bps for NZ 2011)	n/a	4.1%	n/a	6.0%
	Zero coupon government bond curve (+55bps for Aus 2011)	3.8% - 5.2%	n/a	n/a	n/a
	Zero coupon inter-bank swap curve	n/a	n/a	4.9% - 6.3%	3.1% - 6.0%
Life annuities	Zero coupon government bond curve (+70bps for Aus and +40bps for NZ)	3.8% - 5.1%	2.8% - 4.8%	n/a	n/a



## Notes to the Financial Statements

For the year ended 31 December 2011

### 14. LIFE INSURANCE CONTRACTS (continued)

#### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

##### (i) Risk Free Discount rates (continued)

Business Type		Basis	31 December 2011		31 December 2010	
			Australia	New Zealand	Australia	New Zealand
Life annuities (continued)	CPI	Commonwealth Indexed Bond curve (+20bps for 2010 and +70bps for Aus and +40bps for NZ 2011)	1.5% - 2.2%	1.3%	2.8% - 3.0%	2.8%

#### Footnote:

(i) The basis of the risk free discount rates for risk products has changed from a single bond rate to a bond curve during 2011 as part of the alignment of economic assumptions used by AMP Life and The National Mutual Life Association of Australasia Limited (NMLA).

##### (ii) Participating business discount rates

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

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

	10 Year Government Bonds	Local equities	International equities	Property	Fixed interest	Cash
<b>Australia</b>						
31 December 2011	3.7%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2010	5.5%	4.1%	2.5%	2.0%	0.5%	(0.5%)
<b>New Zealand</b>						
31 December 2011	3.8%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2010	6.0%	4.5%	2.5%	2.0%	0.5%	(0.5%)

The risk premia for local equities includes allowance for imputation credits. The risk premia for fixed interest reflects credit ratings of the portfolio held.

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

	Equities	Property	Fixed interest	Cash
<b>Australia</b>				
31 December 2011	30%	11%	39%	20%
31 December 2010	30%	11%	39%	20%
<b>New Zealand</b>				
31 December 2011	40%	17%	37%	6%
31 December 2010	40%	17%	37%	6%

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

##### (iii) Future participating benefits

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

## Notes to the Financial Statements

For the year ended 31 December 2011

### 14. LIFE INSURANCE CONTRACTS (continued)

#### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

##### (iii) Future participating benefits(continued)

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

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

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

Typical supportable bonus rates on major product lines are as follows (31 December 2010 in parentheses):

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	0.2% - 0.8% (0.7% - 1.1%)	0.4% - 0.8% (1.1% - 1.3%)
New Zealand	0.3% - 0.5% (0.8% - 1.1%)	0.3% - 0.5% (0.8% - 1.1%)

##### Terminal bonus

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

##### Crediting rates (investment account)

Australia	1.5% - 3.8% (2.8% - 8.0%)
New Zealand	2.4% - 2.9% (3.5% - 4.0%)

##### (iv) Future maintenance and investment expenses

Unit maintenance costs are based on budgeted expenses in the year following the balance date (including GST as appropriate and excluding one-off expenses). For future years, these are increased for inflation as described in (v) below. These expenses include fees charged to AMP Life SF1 by service companies in the AMP Life Group. Unit costs vary by product line and class of business based on an apportionment which is supported by expense analyses.

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

##### (v) Inflation and indexation

Benefits and premiums under many regular premium policies are automatically indexed by the published consumer price index (CPI). Assumed future take-up of these indexation options is based on AMP Life SF1's own experience. The annual inflation rates are derived from the difference between long-term government bonds and indexed government bonds.

The assumptions for expense inflation have regard to these rates, recent experience performance, AMP Life SF1's current plans and the terms of the relevant service company agreement, as appropriate.

The assumed annual inflation rates at the valuation dates are:

	Australia	New Zealand
31 December 2011	2.6% CPI, 3.0% Expenses	2.5% CPI, 3.0% Expenses
31 December 2010	2.9% CPI, 3.0% Expenses	3.3% CPI, 3.0% Expenses

##### (vi) Bases of taxation

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

##### (vii) Voluntary discontinuance

Assumptions for the incidence of withdrawals, paid ups and premium dormancy are primarily based on investigations of AMP Life SF1's own experience over the past three years. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across AMP Life SF1 is extremely diverse.

Future rates of discontinuance used at 31 December 2011 are unchanged from those assumed at 31 December 2010.

Future rates of discontinuance for the major classes of life insurance contracts are assumed on average to be:

Business type	31 December 2011		31 December 2010	
	Australia	New Zealand	Australia	New Zealand
Conventional	2.1% - 3.0%	1.3% - 2.5%	2.1% - 3.0%	1.3% - 2.5%
Investment account	n/a	n/a	n/a	n/a
Retail risk	10.5% - 11.0%	10.5% - 12.0%	10.5% - 11.0%	10.5% - 12.0%
FLS risk business (ultimate rate)	7.5% - 9.0%	n/a	7.5% - 9.0%	n/a

## Notes to the Financial Statements

For the year ended 31 December 2011

### 14. LIFE INSURANCE CONTRACTS (continued)

#### (f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

##### (viii) Surrender values

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

##### (ix) Mortality and morbidity

Standard mortality tables, based on national or industry wide data, are used (e.g. IA95-97 and IM(F)80 in Australia and New Zealand). These are then adjusted by factors that take account of AMP Life SF1's own experience primarily over the past three years. For annuity business, adjustment is also made for mortality improvements prior to and after the valuation date.

Rates of mortality assumed at 31 December 2011 are unchanged from those assumed at 31 December 2010 in Australia and New Zealand, except for:

- Australian conventional business – reduced from 75% to 67.5% of IA95-97
- Annuitant mortality – base mortality table (prior to amendment for some specific AMP Life SF1 experience) changed from IM80/IF80 to IM00/IF00.

Typical mortality assumptions, in aggregate, are as follows:

Risk products	Conventional - % of IA95-97		Term - % of IA95-97		FLS Risk - % of IA95-97	
	Male	Female	Male	Female	Male	Female
Australia	67.5%	67.5%	63%	63%	63%	63%
New Zealand	73%	73%	63%	63%	63%	63%

Annuitants	Male - % of IML00*	Female - % of IFL00*
Australia & New Zealand	95%	80%

For disability income business, the claim assumptions are currently based on IAD89-93, which is derived from Australian experience. It is adjusted for AMP Life SF1's experience, with the adjustment dependent on age, sex, waiting period, occupation, smoking status and claim duration. Incidence and termination rates have both changed for Australia and New Zealand from those used at 31 December 2010.

Typical morbidity assumptions in aggregate are as follows:

Income protection	Incidence rates - % of IAD89-93	Termination rates (ultimate) - % of IAD 89-93
Australia	87%	94%
New Zealand	60%	90%

For trauma cover, standard tables are not available and so assumptions are mostly based on Australian population statistics, with adjustment for smoking status as well as AMP Life SF1's recent claim experience. Assumptions at 31 December 2011 are unchanged from those used at 31 December 2010.

The Actuarial tables used were:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.
IML00* / IFL00*	IML00 and IFL00 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999 to 2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IML00* and IFL00* are these published tables amended for some specific AMP experience.
IAD85-93	A disability table developed by the Institute of Actuaries of Australia based on Australian disability income experience from 1989 to 1993.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 14. LIFE INSURANCE CONTRACTS (continued)

#### (x) Impact of changes in assumptions

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

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2010 to 31 December 2011 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below.

Assumption change	Change in future profit margins A\$M	Change in life insurance contract liabilities A\$M	Change in shareholders' profit & equity A\$M
Non-market related changes to discount rates <sup>1)</sup>	(111)	1	1
Mortality and morbidity	(32)	-	-
Discontinuance rates	-	-	-
Maintenance expenses	(11)	-	-
Other assumptions <sup>2)</sup>	32	-	-

Footnote:

<sup>1)</sup> The change in future profit margins reflects impact of moving the risk discount rate from the 10 year government bond rate to zero coupon government bond curve as per note 14(f)(i).

<sup>2)</sup> Other assumptions changes include the impact of actual and planned premium rate changes.

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

#### (g) Insurance risk sensitivity analysis – life insurance contracts

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

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

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax, and equity	
		Gross of reinsurance A\$M	Net of reinsurance A\$M	Gross of reinsurance A\$M	Net of reinsurance A\$M
Mortality	10% increase in mortality rates	(1)	(1)	1	1
Annuitant mortality	50% increase in the rate of mortality improvement	1	1	(1)	(1)
Morbidity – lump sum disablement	20% increase in lump sum disablement rates	-	-	-	-
Morbidity – disability income	10% increase in incidence rates & 10% decrease in recovery rates	-	-	-	-
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	-	-	-

## Notes to the Financial Statements

For the year ended 31 December 2011

### 14. LIFE INSURANCE CONTRACTS (continued)

#### (h) Life insurance risk

The life insurance activities of AMP Life SF1 involve a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders, often in conjunction with the provision of wealth-management products.

The design of products carrying insurance risk is managed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave AMP Life SF1 open to claims from causes that were not anticipated. Product prices are set through a process of financial analysis, including review of previous AMP Life SF1 and industry experience and specific product design features. The variability inherent in insurance risk is managed by having a large portfolio of individual risks, underwriting and use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

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

AMP Life SF1 reinsures (cedes) to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to:

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses.

The specialist reinsurance companies are regulated by APRA or industry regulators in other jurisdictions and have strong credit ratings from A- to AA+.

#### Terms and conditions of life insurance contracts

The nature of the terms of the significant life insurance contracts written by AMP Life SF1 is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance contracts issued by AMP Life SF1 depend.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)</i>	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of AMP Life SF1. Premium rates for yearly renewable business are not guaranteed and may be changed at the AMP Life SF1's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is generally allocated 80:20 between the policyholders and shareholder in accordance with the Life Act. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as bonuses.	Market earning rates on assets backing the liabilities, interest rates, lapses, expenses and mortality.

**Notes to the Financial Statements**

For the year ended 31 December 2011

**14. LIFE INSURANCE CONTRACTS (continued)****(h) Life insurance risk (continued)***Terms and conditions of life insurance contracts (continued)*

<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and shareholder in accordance with the Life Act. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities, interest rates
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**(i) Liquidity risk and future net cash outflows**

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

	Up to 1 Year A\$M	1 to 5 Years A\$M	Over 5 Years A\$M	Total A\$M
<b>31 December 2011</b>	<b>747</b>	<b>2,024</b>	<b>6,184</b>	<b>8,955</b>
<b>31 December 2010</b>	<b>903</b>	<b>2,416</b>	<b>5,420</b>	<b>8,739</b>

**15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES**

	Consolidated and Parent 2011 A\$M	Consolidated and Parent 2010 A\$M
<b>(a) Analysis of life insurance and investment contract profit</b>		
Components of profit related to changes in life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	259	279
- Profits arising from difference between actual and assumed experience	98	(8)
- Capitalised (losses) reversals	1	1
<b>Profit related to life insurance and investment contract liabilities</b>	<b>358</b>	<b>272</b>
Attributable to:		
- Life insurance contracts	344	254
- Investment contracts	14	18
<b>Investment earnings on assets in excess of life insurance and investment contract liabilities</b>	<b>358</b>	<b>272</b>

**Notes to the Financial Statements**

For the year ended 31 December 2011

**15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (continued)****(b) Restrictions on assets**

Investments held in AMP Life SF1 can only be used in accordance with the relevant regulatory restrictions, which are imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions when solvency, capital adequacy and other regulatory requirements are met.

**(c) Capital guarantees**

	Consolidated and Parent 2011 A\$M	Consolidated and Parent 2010 A\$M
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,493	13,758
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	2	2
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	124	131

**(d) Solvency and capital adequacy**

Registered life insurance entities are required to hold prudential reserves over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These prudential reserving requirements are specified by the Life Act and accompanying actuarial standards. AMP Life SF1 holds additional amounts of reserves to provide a higher level of security for policyholder benefits than would be achieved by holding the statutory minimum.

Under the Life Act, there are two requirements for a life statutory fund:

- the solvency requirement; and
- the capital adequacy requirement.

**Solvency requirements**

The solvency requirement is the absolute minimum that must be satisfied for the business to be allowed to continue to operate. Its purpose is to ensure, as far as practicable, that at any time the fund will be able to meet all existing life insurance contract liabilities, investment contract liabilities and other liabilities as they become due.

The Appointed Actuary of AMP Life SF1 has confirmed that the available assets of the statutory fund have exceeded the solvency reserve required at all times during the reporting period. The excess assets, expressed as a percentage of the solvency reserve, at 31 December 2011 was 57 per cent (31 December 2010: 68 per cent).

**Capital adequacy requirements**

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for the life entity to be allowed to make distributions to its shareholders and to operate without regulatory intervention. Its purpose is to ensure, as far as practicable, that there is sufficient capital in the statutory fund for the continued conduct of the life insurance business, including writing new business, in a way which is in the interests of policyholders and in accordance with the Life Act.

The Appointed Actuary of AMP Life SF1 has confirmed that the available assets of the statutory fund have exceeded the capital adequacy reserve required at all times during the reporting period. For this purpose, the capital adequacy reserve is defined as the solvency reserve, plus the difference between the capital adequacy requirement and the solvency requirement. The excess assets, expressed as a percentage of the capital adequacy reserve, as at 31 December 2011 was 29 per cent (31 December 2010: 33 per cent).

Distribution of retained profits including shareholders' Life Act capital is limited by prudential capital requirements of the Life Act, the detailed provisions of which are specified by actuarial standards. The Solvency Standard prescribes a minimum capital requirement, the solvency requirement, for the statutory fund.

**Notes to the Financial Statements**

For the year ended 31 December 2011

**15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (continued)****(d) Solvency and capital adequacy (continued)**

The solvency requirements, and ratios in respect of those requirements shown below, are as follows:

		2011 A\$M	2010 A\$M
<b>Solvency requirement</b>			
- Net Minimum Termination Value – MTV <sup>(1)</sup>		19,260	18,342
- Adjusted other liabilities		2,332	1,805
- Solvency reserve	B	2,145	2,075
<b>Total solvency requirement <sup>(2)</sup></b>	A	23,737	22,222
<b>Assets available for solvency</b>			
- Net assets		1,740	1,476
- Liability for unvested policyholder benefits at the end of the year		1,267	1,376
- Excess of net policy liabilities (including policyholder bonuses) over MTV		361	638
<b>Total assets available for solvency</b>	C	3,368	3,490
Solvency reserve %	$(B/(A-B)) \times 100$	9.9%	10.3%
Coverage of solvency reserve	C/B	1.57	1.68

<sup>(1)</sup> In determining the solvency requirement the minimum termination value is the base figure upon which reserves against liability and asset risks are layered. With exceptions, the minimum termination values are determined in accordance with the Solvency Standard and represent the minimum obligation payable on termination of the policy as at the balance sheet date. For those conventional policies in New Zealand, where no minimum termination values apply under the Australian Standard, values have been calculated on similar lines as for comparable Australian policies.

<sup>(2)</sup> The minimum level of assets required to be held in the Statutory Fund, prescribed by the Solvency Standard referred to in Part 5 of Australia's Life Insurance Act 1995.

**(e) Actuarial information**

Mr. Rocco Mangano, as the Appointed Actuary of AMP Life SF1, is satisfied as to the accuracy of the data used in the valuations in the Financial Report and in the tables in this Note and Note 14.

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

**(f) Amounts expected to be recovered or settled no more than 12 months after the reporting date**

Based on assumptions as to likely withdrawal patterns in the various product groups, it is estimated that approximately \$2.5bn (2010: \$2.8bn) of policy liabilities may be settled within 12 months of the reporting date.



**Notes to the Financial Statements**

For the year ended 31 December 2011

**15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (continued)****(g) Disaggregated information**

Information for all major components of the financial statements disaggregated between investment linked and non-investment linked business is provided within this note.

**(i) Disaggregated Income statement**

	Non- Investment Linked 2011 A\$M	Investment Linked 2011 A\$M	Total Parent 2011 A\$M
<b>Income and expenses of policyholder, shareholders, external unitholders and minority interests</b>			
Life insurance premium and related revenue	1,140	-	1,140
Fee and other revenue	42	2	44
Investment gains	1,598	-	1,598
Life insurance claims and related expenses	(1,228)	-	(1,228)
Operating expenses	(627)	(1)	(628)
Finance costs	(65)	-	(65)
Change in life insurance contract liabilities	82	-	82
Change in investment contract liabilities	(179)	-	(179)
Profit before income tax	763	1	764
Income tax expense	(326)	(1)	(327)
<b>Net profit for the year</b>	<b>437</b>	<b>-</b>	<b>437</b>

	Non- Investment Linked 2010 A\$M	Investment Linked 2010 A\$M	Total Parent 2010 A\$M
<b>Income and expenses of policyholders, shareholder, external unitholders and minority interests</b>			
Life insurance premium and related revenue	1,100	-	1,100
Fee and other revenue	43	2	45
Investment gains / (losses)	1,221	7	1,228
Life insurance claims and related expenses	(1,289)	-	(1,289)
Operating expenses	(616)	(1)	(617)
Finance costs	(16)	-	(16)
Change in life insurance contract liabilities	202	-	202
Change in investment contract liabilities	(127)	(7)	(134)
Profit before income tax	518	1	519
Income tax expense	(174)	(1)	(175)
<b>Net profit for the year</b>	<b>344</b>	<b>-</b>	<b>344</b>

**Notes to the Financial Statements**

For the year ended 31 December 2011

**15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (continued)**

(g) Disaggregated information (continued)

(ii) Disaggregated Statement of financial position

	Non- Investment Linked 2011 A\$M	Investment Linked 2011 A\$M	Elimination 2011 A\$M	Total Parent 2011 A\$M
<b>Assets</b>				
Investments in financial assets	19,230	94	-	19,324
Investment property	130	-	-	130
Investments in controlled entities	1,185	56	-	1,241
Other assets	3,991	(82)	271	4,180
<b>Total assets of policyholders, shareholder, external unit holders and minority interests</b>	<b>24,536</b>	<b>68</b>	<b>271</b>	<b>24,875</b>
<b>Liabilities</b>				
Life insurance contract liabilities	17,345	-	-	17,345
Investment contract liabilities	3,554	86	-	3,640
Other liabilities	1,897	(18)	271	2,150
<b>Total liabilities of policyholders, shareholder, external unit holders and minority interests</b>	<b>22,796</b>	<b>68</b>	<b>271</b>	<b>23,135</b>
<b>Net assets of AMP Life SF1</b>	<b>1,740</b>	<b>-</b>	<b>-</b>	<b>1,740</b>
<b>Equity</b>				
Contributed equity	303	-	-	303
Reserves	(34)	-	-	(34)
Retained earnings	1,471	-	-	1,471
<b>Total equity of AMP Life SF1</b>	<b>1,740</b>	<b>-</b>	<b>-</b>	<b>1,740</b>

	Non- Investment Linked 2010 A\$M	Investment Linked 2010 A\$M	Elimination 2010 A\$M	Total Parent 2010 A\$M
<b>Assets</b>				
Investments in financial assets	20,448	93	19	20,560
Investment property	121	-	-	121
Investments in controlled entities	1,160	56	-	1,216
Other assets	2,715	(72)	294	2,937
<b>Total assets of policyholders, shareholder, external unit holders and minority interests</b>	<b>24,444</b>	<b>77</b>	<b>313</b>	<b>24,834</b>
<b>Liabilities</b>				
Life insurance contract liabilities	17,762	-	-	17,762
Investment contract liabilities	2,562	98	-	2,660
Other liabilities	2,644	(21)	313	2,936
<b>Total liabilities of policyholders, shareholder, external unit holders and minority interests</b>	<b>22,968</b>	<b>77</b>	<b>313</b>	<b>23,358</b>
<b>Net assets of AMP Life SF1</b>	<b>1,476</b>	<b>-</b>	<b>-</b>	<b>1,476</b>
<b>Equity</b>				
Contributed equity	303	-	-	303
Reserves	(33)	-	-	(33)
Retained earnings	1,206	-	-	1,206
<b>Total equity of AMP Life SF1</b>	<b>1,476</b>	<b>-</b>	<b>-</b>	<b>1,476</b>

**Notes to the Financial Statements**

For the year ended 31 December 2011

**15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (continued)****(g) Disaggregated Information (continued)****(iii) Disaggregated movement in retained earnings**

	Non- Investment Linked	Investment Linked	Total Parent	Total Consolidated
	2011 A\$M	2011 A\$M	2011 A\$M	2011 A\$M
Opening retained earnings	1,206	-	1,206	1,206
Profit for the year	437	-	437	437
Transfer to AMP Life Limited Shareholder Fund	(172)	-	(172)	(172)
Closing retained earnings	1,471	-	1,471	1,471

	Non- Investment Linked	Investment Linked	Total Parent	Total Consolidated
	2010 A\$M	2010 A\$M	2010 A\$M	2010 A\$M
Opening retained earnings	1,222	-	1,222	1,222
Profit for the year	344	-	344	344
Transfer to AMP Life Limited Shareholder Fund	(360)	-	(360)	(360)
Closing retained earnings	1,206	-	1,206	1,206

**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES****Financial Risk Management**

AMP Life SF1's risk management is carried out in accordance with the policies set by the AMP Limited Board for management of the risks within the AMP group.

The principal objective of AMP Group Financial Risk Management (FRM) framework is to ensure the existence of a robust structure for identifying, assessing, measuring, managing and escalating risks. The FRM Framework operates under the AMP Group risk appetite statement that includes consideration of risk to capital and risk to earnings.

FRM in the AMP Group is managed in accordance with policies set by the AMP Limited Board (the Board). These policies are set out in the FRM Framework and this provides a structure for managing financial risks including delegations, escalations and reporting. The FRM Framework also outlines AMP Group's FRM objectives and identifies organisational responsibilities for the implementation of the FRM Framework. In addition, the FRM Framework provides an overview of each of the key financial risks including the nature of the risks, objectives in seeking to manage the risks, the key policy variables for the management of the risks and the business unit responsibility for managing and reporting the risks.

The Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and that it is operating effectively. This includes approval of the FRM Framework and its sub-policies, the shareholder capital investment strategy, capital and financing plans, approval of transactions outside the FRM Framework and setting the financial risk appetite. The AMP Limited Audit Committee (AMP AC) ensures the existence of effective FRM policies and procedures, and oversight of the execution of the FRM Framework. The AMP Life Audit Committee are delegated this responsibility for the elements specific to their respective business.

Executive Committees oversee the management and monitoring of financial risks and capital management. These Committees include Group Asset and Liability Committee (Group ALCO) for AMP Group and AFS ALCO for AMP Life SF1. The Debt Committee, a sub-committee of Group ALCO, also reviews and monitors debt financing risk across the AMP Group. These Executive Committees report to the respective Audit Committees and Boards.

AMP Group Treasury (Group Treasury) is responsible for the execution of the FRM Framework and capital and financing plans in compliance with Board approved targets and limits. Group Treasury is also responsible for the execution of the approved investment strategy for AMP shareholder capital, for analysis and reporting of financial risks and capital position to Group ALCO, AMP AC and the Board, and monitoring compliance with the FRM Framework in relation to FRM and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the Board.

Internal Audit checks for compliance with the FRM Framework as part of its ongoing audit cycle. Internal Audit is required to review the effectiveness of the FRM Framework and report ultimately to the AMP AC.

The directors and boards of AMP Life SF1 are required to comply with the Board approved risk appetite. AMP Life SF1's controlled operating entities are also responsible for approving policyholder asset and liability strategy, allocating subsidiary shareholder capital investment and for reporting to the AMP Life AC and Life ALCO on financial risks.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)

#### Financial Risk Management (continued)

The Appointed Actuary is responsible for reporting to AMP Life Board, AMP Life AC, AMP AC, Group ALCO, AFS ALCO as well as externally to APRA on the financial condition of the Branch including solvency, capital adequacy and target surplus. The Appointed Actuary is also responsible for giving advice to the Branch on distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. The Life Insurance Act (*Life Act*) also imposes obligations on an Appointed Actuary to bring to the attention of the Branch, or in some circumstances, APRA, any matter that the Appointed Actuary believes requires action to avoid prejudice to the interests of policyholders.

Information about AMP Life SF1's capital management activities, including the relationship with regulatory requirements on regulated entities, within the AMP Group is provided in Note 17.

#### (a) Risks and mitigation

For the purposes of the FRM Policy, risk management involves decisions made about the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes.

Financial risk in AMP Life SF1 is managed by reference to the probability of loss relative to expected income over a one-year time horizon at a 90 per cent confidence level (Profit at risk). In respect of investments held in the shareholder fund and in the life statutory fund, the loss tolerance over the discretionary investments is set at a low level because AMP Life SF1 has equity market exposure in its businesses (for example through fees on Assets Under Management).

Financial risks arising in AMP Life SF1 include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the FRM Framework including through the use of derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to movements in the financial markets. These movements include foreign exchange rates, interest rates, credit spreads, equity prices or property prices. Market risk in AMP Life SF1 arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, interest bearing investments and corporate debt.

#### (b) Market risk sensitivity analysis

The paragraphs below include sensitivity analysis tables showing how the profit after tax and equity would have been impacted by changes in market risk variables including interest rate risk and currency risk as defined in AASB 7 '*Financial Instruments: Disclosures*'. They show the direct impact on the profit after tax or equity of a reasonably possible change in factors which affect the carrying value of financial assets and financial liabilities held at the end of the reporting period.

The sensitivity is required to show the impact of a reasonably possible change in market rate. It is not intended to illustrate a remote, worst case, stress test scenario nor does it represent a forecast. In addition it does not include the impact of any mitigating management actions over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

#### (i) Interest rate risk

Interest rate risk is the risk of an impact on AMP Life SF1's profit after tax and equity from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates.

Interest rate risk arises from interest bearing financial assets and financial liabilities held by AMP Life SF1. Management of those risks is decentralised according to the activity.

As discussed in Note 1(b), AMP Life SF1 conducts its life insurance business through the statutory fund. Investment assets of the statutory fund including interest-bearing financial assets are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital.

Interest rate risk of AMP Life SF1 which impacts shareholders arises in respect of financial assets and liabilities held in the statutory fund. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the statutory fund to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (investment-linked business), there is no residual interest rate exposure which would impact the shareholder.

Management of various risks associated with investments undertaken by the statutory fund, such as interest rate risk is subject to the relevant regulatory requirements governed by the Life Act. AMP Life SF1 is required to satisfy solvency requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities.

AMP Life SF1 manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to policyholder expectations and risks to AMP Life Limited Board's target surplus philosophy for both capital adequacy and solvency as advised by the Appointed Actuary.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)

#### (b) Market risk sensitivity analysis (continued)

##### (i) Interest rate risk (continued)

##### Interest rate risk sensitivity analysis

This analysis demonstrates the impact of a 100 basis points change in Australian and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that would qualify as cash flow hedges for hedge accounting. A sensitivity level of 100 basis points is determined considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in AMP Life SF1.

Change in variables	2011	2011	2010	2010
	Impact on profit after tax Increase (decrease) A\$M	Impact on equity Increase (decrease) A\$M	Impact on profit after tax Increase (decrease) A\$M	Impact on equity Increase (decrease) A\$M
+100 basis points	(22)	(22)	(14)	(14)
-100 basis points	43	43	16	16

##### (ii) Currency risk

Currency risk is the risk of an impact on AMP Life SF1's profit after tax from movements in foreign exchange rates. Changes in value would occur in respect of translating AMP Life SF1's capital in overseas investments into Australian dollars at reporting date (translation risk) or from foreign exchange rate movements on specific cash flow transactions (transaction risk).

AMP Life SF1 does not hedge the capital invested in overseas investments thereby accepting the foreign currency translation risk on invested capital.

##### Currency risk sensitivity analysis

The analysis demonstrates the impact of a 10 per cent movement of currency rates against the Australian dollar with all other variables held constant, on the profit after tax and equity due to changes in fair value of currency sensitive monetary assets and liabilities at the reporting date. It is assumed that the 10 per cent change occurs as at the reporting date. A sensitivity level of 10% is determined considering the range in currency exposures of AMP Life SF1.

Change in variables	2011	2011	2010	2010
	Impact on profit after tax Increase (decrease) A\$M	Impact on equity Increase (decrease) A\$M	Impact on profit after tax Increase (decrease) A\$M	Impact on equity Increase (decrease) A\$M
10 % depreciation of AUD	(1)	(1)	8	8
10 % appreciation of AUD	1	1	(8)	(8)

**Notes to the Financial Statements**

For the year ended 31 December 2011

**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(b) Market risk sensitivity analysis (continued)****(iii) Equity price risk**

Equity price risk is the risk of an impact on AMP Life SF1's profit after tax and equity from movements in equity prices. AMP Life SF1 measures equity securities at fair value through profit or loss.

**Equity price risk sensitivity analysis**

The analysis demonstrates the impact of a 10 per cent movement in Australian and international equities held at reporting date. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments. Any potential indirect impact on fees from AMP Life SF1's investment linked business is not included. A sensitivity level of 10 per cent is determined considering the widely spread portfolios held by AMP Life SF1 and the range of movements in equity markets for the periods.

Change in variables	2011		2010	
	Impact on profit after tax Increase (decrease) \$m	Impact on equity Increase (decrease) \$m	Impact on profit after tax Increase (decrease) \$m	Impact on equity Increase (decrease) \$m
10% increase in Australian equities	8	11	9	9
10% increase in international equities	(1)	-	8	8
10% decrease in Australian equities	(16)	(18)	(9)	(9)
10% decrease in international equities	1	-	(8)	(8)

**(c) Liquidity and re-financing risk**

Liquidity risk is the risk that AMP Life SF1 is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk, a sub-set of liquidity risk, is the risk that the maturity profile of existing debt is such that it would be difficult to refinance (or rollover) maturing debt, or there is excessive exposure to potentially unfavourable market conditions at any given time.

To ensure that AMP Life SF1 has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, Group Treasury maintains a defined surplus of cash plus six months of debt maturities to mitigate refinancing risk, satisfy regulatory requirements and protect against liquidity shocks in accordance with the liquidity risk management policy approved by the AMP Life Limited Board.

In the current year no breaches of banking covenants have occurred (2010: nil). The carrying amount of bank borrowings at 31 December 2011 was \$3m (\$2010: \$2m) - refer Note 13. The financiers of the borrowings do not have recourse to AMP Life SF1.

The following table summarises the maturity profiles of AMP Life SF1's undiscounted financial liabilities and off-balance sheet items at the reporting date. The maturity profiles are based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

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**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(c) Liquidity and re-financing risk (continued)****Maturity profiles of undiscounted financial liabilities <sup>(1)</sup>**

2011 – Consolidated	Up to 1 Year or no term A\$M	1 to 5 Years A\$M	More than 5 Years A\$M	Other <sup>(2)</sup> A\$M	Total A\$M
Payables	448	1	-	1	450
Borrowings	300	213	-	-	513
Investment contract liabilities <sup>(2)</sup>	1,248	1,111	1,685	86	4,130
External unit-holders' liabilities	-	-	-	1,621	1,621
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>1,996</b>	<b>1,325</b>	<b>1,685</b>	<b>1,708</b>	<b>6,714</b>
2010 – Consolidated	Up to 1 Year or no term A\$M	1 to 5 Years A\$M	More than 5 Years A\$M	Other A\$M	Total A\$M
Payables	482	2	-	1	485
Borrowings	532	-	-	-	532
Investment contract liabilities	749	946	1,463	98	3,256
External unit-holders' liabilities	-	-	-	712	712
<b>Total undiscounted financial liabilities</b>	<b>1,763</b>	<b>948</b>	<b>1,463</b>	<b>811</b>	<b>4,985</b>
2011 – Parent	Up to 1 Year or no term A\$M	1 to 5 Years A\$M	More than 5 Years A\$M	Other <sup>(2)</sup> A\$M	Total A\$M
Payables	477	-	-	1	478
Borrowings	388	-	-	-	388
Investment contract liabilities <sup>(2)</sup>	1,248	1,111	1,685	86	4,130
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>2,113</b>	<b>1,111</b>	<b>1,685</b>	<b>87</b>	<b>4,996</b>
2010 – Parent	Up to 1 Year or no term A\$M	1 to 5 Years A\$M	More than 5 Years A\$M	Other A\$M	Total A\$M
Payables	472	2	-	1	475
Borrowings	399	-	-	-	399
Investment contract liabilities	749	946	1,463	98	3,256
<b>Total undiscounted financial liabilities</b>	<b>1,620</b>	<b>948</b>	<b>1,463</b>	<b>99</b>	<b>4,130</b>

**Footnote:**

<sup>(1)</sup> The table provides maturity analysis of AMP Life SF1's financial liabilities and non-linked investment contracts including term annuities.

<sup>(2)</sup> Investment contract liabilities of \$86m (2010: \$98m) are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all those policyholders claimed their funds, there may be some delays in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk.

<sup>(3)</sup> Estimated net cash out flow profile of life insurance contract liabilities is disclosed in Note 14(i).

**Notes to the Financial Statements**

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**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(d) Credit risk**

Credit risk includes both settlement credit exposures and traded credit exposures. Credit default risk is the risk of an adverse impact on results and asset values relative to expectations due to a counterparty failing to meet their contractual commitments in full and on time (obligator's non-payment of a debt). Traded credit risk is the risk of an adverse impact on results and asset values relative to expectations due to changes in value of a traded financial instrument as a result of changes in credit risk on that instrument.

The AMP Concentration Risk Policy sets out the assessment and determination of what constitutes credit risk. The policy has set exposure limits for each counterparty and credit rating. Compliance with this policy is monitored and exposures and breaches are reported to senior management and the AMP Life AC through the weekly and quarterly FRM Report.

Credit risk management is decentralised in business units within the AMP Group; however, credit risk directly and indirectly (ie. in the participating business) impacting shareholder capital is measured and managed by Group Treasury by aggregating risk from credit exposures taken in business units as detailed below.

Credit risk on the invested fixed income portfolios in the statutory fund is managed by the AMP Capital Investors Risk and Compliance Committee (AMP Capital Investors R&C) and reported to the fund managers, within specified credit criteria in the mandate approved by the AMP Life Board. The shareholder portion of credit risk in AMP Life SF1 is reported to AMP Group ALCO by AMP Group Treasury.

**(i) Management of credit risk concentration**

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counter party or where a number of counter parties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk is managed through both aggregate credit rating limits and individual counter party limits, which are determined predominantly on the basis of the counter party's credit rating.

At reporting date, there is no specific concentration of credit risk with a single counter party arising from the use of financial instruments, other than the normal clearing-house exposures associated with dealings through recognised exchanges.

The counter parties to non-exchange traded contracts, at the time of entering those contracts, are limited to companies with investment grade credit (BBB- or greater). The credit risks associated with these counter parties are assessed under the same management policies as applied to direct investments in AMP Life SF1's portfolio.

Compliance is monitored and exposures and breaches reported to senior management and the AMP Life AC through the weekly and quarterly FRM Report.

**(ii) Exposure to credit risk**

AMP Life SF1's maximum exposure to credit risk on recognised financial assets, without taking account of any collateral or other credit enhancements as at the reporting date was \$15,278m (2010: \$11,998m). This amount includes (i) financial assets of investment linked business in AMP Life SF1 where the liability to policyholders is linked to the performance and value of the assets that back those liabilities and consequently there is no exposure to shareholders, and (ii) other items arising in the course of operations which are managed by the respective business units.

The exposures on the interest bearing securities and cash equivalents which impact AMP Life SF1's capital position are managed by Group Treasury within limits set by the AMP Life Concentration Risk Policy. The following table provides information regarding the credit risk exposures for those items according to the credit rating of the counter parties.

	Consolidated	
	2011	2010
	A\$M	A\$M
AAA	3,539	4,121
AA	7,295	4,084
A	3,174	2,128
BBB	1,114	1,458
Below BBB	156	207
<b>Total financial assets with credit risk exposure managed by AMP Group Treasury</b>	<b>15,278</b>	<b>11,998</b>



**Notes to the Financial Statements**

For the year ended 31 December 2011

**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(d) Credit risk (continued)****(iii) Past due but not impaired financial assets**

The following table below provides an aging analysis of financial assets that are past due as at reporting date but not impaired:

	Past due but not impaired				Total
	Less than 30 days A\$M	31 to 60 days A\$M	61 – 90 days A\$M	More than 91 days A\$M	
<b>2011 – Consolidated</b>					
Receivables					
- Other receivables – other entities	1	-	-	1	2
<b>Total <sup>(1)</sup></b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>2</b>

	Past due but not impaired				Total
	Less than 30 days A\$M	31 to 60 days A\$M	61 – 90 days A\$M	More than 91 days A\$M	
<b>2010 – Consolidated</b>					
Receivables					
- Other receivables – other entities	1	-	-	1	2
<b>Total <sup>(1)</sup></b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>2</b>

	Past due but not impaired				Total
	Less than 31 days A\$M	31 to 60 days A\$M	61 – 90 days A\$M	More than 91 days A\$M	
<b>2011 – Parent</b>					
Receivables					
- Other receivables – other entities	-	-	-	-	-
<b>Total <sup>(1)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Past due but not impaired				Total
	Less than 31 days A\$M	31 to 60 days A\$M	61 – 90 days A\$M	More than 91 days A\$M	
<b>2010 – Parent</b>					
Receivables					
- Other receivables – other entities	1	-	-	1	2
<b>Total <sup>(1)</sup></b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>2</b>

Footnote:

<sup>(1)</sup> For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Therefore, the tables above do not show any past due financial assets that back investment linked business.

**(iv) Adjustment for own credit risk in the determination of the fair value of life investment contract policy liabilities**

The fair value of non-investment linked investment contract liabilities includes the following allowance for the credit risk that an external party would ascribe to an amount due from AMP Life SF1:

	Consolidated	
	2011 A\$M	2010 A\$M
Cumulative adjustment	26	19
Change during the period	7	4

The adjustment has been determined as the difference between the fair value recognised and an amount calculated on the same basis using a risk-free interest rate in place of the fair value discount rate.

**(v) Collateral**

AMP Life SF1 enters into debt security repurchase agreements and part of the agreement includes the receipt of collateral which is required to be returned to the counterparty on settlement. As at 31 December 2011 the collateral held by AMP life include Cash and cash equivalents of \$2m (2010: \$0m) and debt securities of \$639m (2010:\$1,398m).

**Notes to the Financial Statements**

For the year ended 31 December 2011

**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(e) Derivative financial instruments**

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

AMP Life SF1 uses derivative financial instruments including financial futures, forward foreign exchange contracts, exchange traded and other options and forward rate agreements to hedge the impact of market movements on the value of assets in the investment portfolios, and to effect a change in the asset mix of investment portfolios.

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

The market risk of derivatives is managed and controlled as an integral part of the financial risk of AMP Life SF1. The credit risk of derivatives is also managed in the context of AMP Life SF1's overall credit risk policies.

**(f) Fair value measures**

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

**Level 1:** Valued by reference to quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arms length basis.

**Level 2:** Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals, currency rates, option volatilities, credit risks, and default rates.

**Level 3:** Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable inputs are determined based on the best information available, which might include AMP Life SF1's own data, reflecting AMP Life SF1's own estimates about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available, and include estimates about the timing of cashflows, discount rates, earnings multiples and other inputs.

The following table shows an analysis of financial instruments measured at fair value by level of the fair value hierarchy:

2011 – Consolidated	Level 1 \$AM	Level 2 \$AM	Level 3 \$AM	Total fair value \$AM
<b>Assets</b>				
Equity securities and listed managed investment schemes	3,592	68	472	4,132
Debt securities	-	11,042	183	11,225
Investments in unlisted managed investment schemes	16	4,713	228	4,957
Derivative financial assets	248	712	-	960
Other financial assets	-	4	-	4
<b>Total financial assets</b>	<b>3,856</b>	<b>16,539</b>	<b>883</b>	<b>21,278</b>
<b>Liabilities</b>				
Borrowings	-	513	-	513
Other financial liabilities	680	514	-	1,194
Investment contract liabilities	-	3,064	576	3,640
<b>Total financial liabilities</b>	<b>680</b>	<b>4,091</b>	<b>576</b>	<b>5,347</b>

**Notes to the Financial Statements**

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**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(f) Fair value measures (continued)**

2010 – Consolidated	Level 1 \$AM	Level 2 \$AM	Level 3 \$AM	Total fair value \$AM
<b>Assets</b>				
Equity securities and listed managed investment schemes	3,594	-	448	4,042
Debt securities	-	9,251	135	9,386
Investments in unlisted managed investment schemes	-	7,140	127	7,267
Derivative financial assets	186	217	-	403
<b>Total financial assets</b>	<b>3,780</b>	<b>16,608</b>	<b>710</b>	<b>21,098</b>

<b>Liabilities</b>				
Borrowings	-	532	-	532
Other financial liabilities	1,434	173	-	1,607
Investment contract liabilities	-	1,994	666	2,660
<b>Total financial liabilities</b>	<b>1,434</b>	<b>2,699</b>	<b>666</b>	<b>4,799</b>

2011 – Parent	Level 1 A\$M	Level 2 A\$M	Level 3 A\$M	Total fair value A\$M
<b>Assets</b>				
Equity securities and listed managed investment schemes	3,213	7	131	3,351
Debt securities	-	9,055	151	9,206
Investments in unlisted investment schemes	-	6,102	167	6,269
Derivative financial assets	211	283	-	494
Other financial assets	-	4	-	4
Investment in controlled entities	-	1,241	-	1,241
<b>Total financial assets</b>	<b>3,424</b>	<b>16,692</b>	<b>449</b>	<b>20,565</b>

<b>Liabilities</b>				
Borrowings	-	388	-	388
Other financial liabilities	667	58	-	725
Investment contract liabilities	-	3,064	576	3,640
<b>Total financial liabilities</b>	<b>667</b>	<b>3,510</b>	<b>576</b>	<b>4,753</b>

2010 – Parent	Level 1 A\$M	Level 2 A\$M	Level 3 A\$M	Total fair value A\$M
<b>Assets</b>				
Equity securities and listed managed investment schemes	3,471	106	121	3,698
Debt securities	-	10,639	108	10,747
Investments in unlisted investment schemes	-	5,629	128	5,757
Derivative financial assets	158	200	-	358
Investment in controlled entities	-	1,216	-	1,216
<b>Total financial assets</b>	<b>3,629</b>	<b>17,790</b>	<b>357</b>	<b>21,776</b>

<b>Liabilities</b>				
Borrowings	-	399	-	399
Other financial liabilities	1,431	161	-	1,592
Investment contract liabilities	-	1,994	666	2,660
<b>Total financial liabilities</b>	<b>1,431</b>	<b>2,554</b>	<b>666</b>	<b>4,651</b>

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**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(f) Fair value measures (continued)**

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 date:

	Balance at the beginning of the year A\$M	Total gains/(losses) A\$M	Purchases / deposits A\$M	Sales / withdrawals A\$M	Net transfers in/(out) A\$M	Balance at the end of the year A\$M	Total gains and losses on assets and liabilities held at reporting date A\$M
<b>2011 - Consolidated</b>							
<b>Assets</b>							
Equity securities and listed managed investments	448	23	2	(1)	-	472	23
Debt securities	135	37	-	(50)	61	183	37
Investments in unlisted managed investments	127	(5)	-	(5)	111	228	(5)
<b>Total financial assets</b>	<b>710</b>	<b>55</b>	<b>2</b>	<b>(56)</b>	<b>172</b>	<b>883</b>	<b>55</b>
<b>Liabilities</b>							
Investment contract liabilities	666	44	2	(136)	-	576	44
<b>Total financial liabilities</b>	<b>666</b>	<b>44</b>	<b>2</b>	<b>(136)</b>	<b>-</b>	<b>576</b>	<b>44</b>
<b>2010 Consolidated</b>							
<b>Assets</b>							
Equity securities and listed managed investments	458	19	4	(6)	(27)	448	2
Debt securities	206	59	14	(169)	25	135	59
Investments in unlisted managed investments	177	(47)	4	(13)	6	127	(47)
<b>Total financial assets</b>	<b>841</b>	<b>31</b>	<b>22</b>	<b>(188)</b>	<b>4</b>	<b>710</b>	<b>(14)</b>
<b>Liabilities</b>							
Investment contract liabilities	815	23	3	(175)	-	666	32
<b>Total financial liabilities</b>	<b>815</b>	<b>23</b>	<b>3</b>	<b>(175)</b>	<b>-</b>	<b>666</b>	<b>32</b>

**Notes to the Financial Statements**

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**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(f) Fair value measures (continued)**

2011 - Parent	Balance at the beginning of the year	Total gains/(losses)	Purchases / deposits	Sales / withdrawals	Net transfers in/(out)	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
<b>Assets</b>							
Equity securities and listed managed investments	121	8	2	-	-	131	8
Debt securities	108	34	-	(46)	55	151	34
Investments in unlisted managed investments	128	(12)	-	(5)	56	167	(12)
<b>Total financial assets</b>	<b>357</b>	<b>30</b>	<b>2</b>	<b>(51)</b>	<b>111</b>	<b>449</b>	<b>30</b>
<b>Liabilities</b>							
Investment contract liabilities	666	44	2	(136)	-	576	44
<b>Total financial liabilities</b>	<b>666</b>	<b>44</b>	<b>2</b>	<b>(136)</b>	<b>-</b>	<b>576</b>	<b>44</b>

2010 - Parent	Balance at the beginning of the year	Total gains/(losses)	Purchases / deposits	Sales / withdrawals	Net transfers in/(out)	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
<b>Assets</b>							
Equity securities and listed managed investments	136	(25)	4	(2)	8	121	(42)
Debt securities	180	60	12	(169)	25	108	60
Investments in unlisted managed investments	178	(47)	4	(13)	6	128	(47)
<b>Total financial assets</b>	<b>494</b>	<b>(12)</b>	<b>20</b>	<b>(184)</b>	<b>39</b>	<b>357</b>	<b>(29)</b>
<b>Liabilities</b>							
Investment contract liabilities	815	23	3	(175)	-	666	32
<b>Total financial liabilities</b>	<b>815</b>	<b>23</b>	<b>3</b>	<b>(175)</b>	<b>-</b>	<b>666</b>	<b>32</b>

**Notes to the Financial Statements**

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**16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (continued)****(f) Fair value measures (continued)**

The following table shows the sensitivity of the fair value of level 3 instruments to changes in key assumptions:

Consolidated	2011			2010		
	Carrying amount	Effect of reasonably possible alternative assumptions (+/-)		Carrying amount	Effect of reasonably possible alternative assumptions (+/-)	
		+	-		+	-
	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
<b>Assets</b>						
Equity securities and listed managed investments	472	33	(17)	448	20	(20)
Debt securities	183	-	-	135	-	-
Investments in unlisted managed investments	228	-	-	127	-	-
<b>Total financial assets</b>	<b>883</b>	<b>33</b>	<b>(17)</b>	<b>710</b>	<b>20</b>	<b>(20)</b>
<b>Liabilities</b>						
Investment contract liabilities	576	(10)	10	666	(10)	10
<b>Total financial liabilities</b>	<b>576</b>	<b>(10)</b>	<b>10</b>	<b>666</b>	<b>(10)</b>	<b>10</b>

Parent	2011			2010		
	Carrying amount	Effect of reasonably possible alternative assumptions (+/-)		Carrying amount	Effect of reasonably possible alternative assumptions (+/-)	
		+	-		+	-
	A\$M	A\$M	A\$M	A\$M	A\$M	A\$M
<b>Assets</b>						
Equity securities and listed managed investments	131	16	-	121	4	(4)
Debt securities	151	-	-	108	-	-
Investments in unlisted managed investments	167	-	-	128	-	-
<b>Total financial assets</b>	<b>449</b>	<b>16</b>	<b>-</b>	<b>357</b>	<b>4</b>	<b>(4)</b>
<b>Liabilities</b>						
Investment contract liabilities	576	(10)	10	666	(10)	10
<b>Total financial liabilities</b>	<b>576</b>	<b>(10)</b>	<b>10</b>	<b>666</b>	<b>(10)</b>	<b>10</b>

The sensitivity has been calculated by changing key inputs such as discount rates and earnings multiples by a reasonably possible amount.

**17. CAPITAL MANAGEMENT**

AMP Life SF1 and its subsidiaries holds capital to protect customers, creditors and shareholders against unexpected losses to a level that is consistent with AMP's risk appetite.

AMP Life SF1 and its subsidiaries assess the adequacy of its capital requirements against regulatory capital requirements. AMP Life SF1 is an operating entity within the AMP group and is regulated by APRA.

The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process.

In addition to managing the level of capital resources, the AMP group also attempts to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

The minimum regulatory capital requirement (MRR) is the amount of capital required by each of AMP's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirements are as follows:

- AMP Life SF1— Solvency, capital adequacy and management capital requirements as specified under the Life Act and APRA Life Insurance Prudential Standards.

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### 17. CAPITAL MANAGEMENT (continued)

AMP Life SF1 as a regulated entity has at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

AMP's regulated businesses each target a level of capital equal to MRR plus a target surplus.

The target surplus of the statutory fund of AMP Life SF1 is set by reference to a probability of breaching regulatory capital requirements. This is a two tiered test where the target surplus is set as the greater of the amount required for a:

- 1 per cent probability of breaching solvency over one year
- 10 per cent probability of breaching capital adequacy over one year.

A number of regulatory capital reviews are currently underway or are in the process of being implemented which will impact AMP Life SF1.

The APRA life and general insurance prudential review aims to align the capital framework of APRA-regulated life and general insurance companies. APRA expects to issue final standards in May 2012, which are likely to take effect from 1 January 2013. AMP has commenced an assessment of the impact of these draft prudential standards on its regulatory capital position. While the assessment is still ongoing, it is expected that there will be an increase in minimum regulatory capital requirements. With ongoing disciplined capital management, AMP Life SF1 expects to continue to maintain a strong surplus to minimum regulatory capital requirements.

Other regulatory capital reviews underway include:

- The Reserve Bank of New Zealand has finalised new New Zealand Solvency Standards for New Zealand life insurance companies. AMP Life SF1 is likely to be exempt from most aspects of these proposals on the basis of its compliance with APRA solvency standards.

### 18. NOTES TO STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2011	2010	2011	2010
	A\$M	A\$M	A\$M	A\$M
<b>(a) Reconciliation of the net profit after income tax to cash flows from / (used in) operating activities</b>				
Net profit after income tax	437	344	437	344
Depreciation of operating assets	9	10	9	10
Net loss (profit) on sale of investments and operating assets	(269)	(69)	(375)	(123)
Unrealised (gains) losses in investment asset values	289	266	165	91
Other losses recognised in comprehensive income	(1)	(14)	(1)	(14)
(Increase) / decrease in receivables and other assets	(279)	(24)	(311)	(43)
Increase / (decrease) in net policy liabilities	563	(492)	563	(492)
Increase / (decrease) in income tax provisions and balances	95	162	95	164
Increase / (decrease) in other operating payables	705	(55)	(171)	(27)
<b>Cash flows from / (used in) operating activities</b>	<b>1,549</b>	<b>128</b>	<b>411</b>	<b>(90)</b>
<b>(b) Reconciliation of cash and cash equivalents</b>				
Cash on hand	76	51	(48)	(43)
Cash on deposit	3,341	2,444	3,261	2,317
Short term bills and notes (included in Debt securities)	1,546	3,041	1,546	3,041
<b>Balance at the end of the year</b>	<b>4,963</b>	<b>5,536</b>	<b>4,759</b>	<b>5,315</b>
<b>(c) Financing arrangements</b>				
<b>(i) Overdraft facilities - Bank overdraft facility available</b>	<b>306</b>	<b>307</b>	<b>306</b>	<b>306</b>
<b>(ii) Loan facilities</b>				
In addition to facilities arranged through bond and note issues (refer note 13), financing facilities are provided through bank loans under normal commercial terms and conditions.				
Available	441	1,243	-	-
Used	(211)	(805)	-	-
<b>Unused</b>	<b>230</b>	<b>438</b>	<b>-</b>	<b>-</b>

#### (d) Acquisition and disposal of controlled entities

In the course of normal operating investment activities, AMP Life SF1 acquires and disposes of equity interests in entities including unit trusts. In some cases, acquisition transactions result in AMP Life SF1 holding a controlling interest in the investee entity. The underlying net assets of such entities typically comprise investment assets including cash, and the consideration paid for a particular acquisition reflects the fair value of the investment assets acquired at the date of acquisition after taking into account minority interests.

Certain controlled entities of AMP Life SF1 are operating companies that carry out business operations unrelated to the core wealth management operations of AMP Life SF1.

AMP Life SF1 acquired a controlling interest in the AMP Life Cash Management Trust (\$1.2 bn) during the current year. Apart from this, there were no other significant acquisitions or disposals of controlled operating entities during 2011 or 2010.

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**19. INVESTMENTS IN CONTROLLED ENTITIES**

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	% Holdings	
			2011	2010
255 George Street Investment A Pty Ltd	Australia	Ord	100	100
Allmarg Corporation Limited	New Zealand	Ord	100	100
AMP Capital Investments No.2 Ltd	New Zealand	Ord A & B, Pref	100	100
AMP Capital Investments No.8 Ltd	New Zealand	Ord A & B, Pref	100	100
AMP Capital Investments No.11 Ltd	New Zealand	Ord A & B	100	100
AMP Capital Investments No.14 Ltd	New Zealand	Ord A & Bf	100	100
AMP CMBS No.1 Pty Limited	Australia	Ord	100	100
AMP CMBS No.2 Pty Limited	Australia	Ord	100	100
AMP/ERGO Mortgage and Savings Limited	New Zealand	Ord	100	100
AMP Investments Chile Limitada <sup>(1)</sup>	Chile	Ord	-	100
AMP Life (NZ) Investments Holdings Limited	New Zealand	Ord	100	100
AMP Life (NZ) Investments Limited	New Zealand	Ord	100	100
Arthur Ellis & Co. Limited <sup>(1)</sup>	New Zealand	Ord	-	100
Donaghys Australia Pty Limited	New Zealand	Ord	58	58
Donaghys Industries Limited	New Zealand	Ord	58	58
Donaghys International Limited	New Zealand	Ord	58	58
Donaghys Limited	New Zealand	Ord, Pref	58	58
Donaghys Pty Limited	New Zealand	Ord	58	58
Inversiones Mineras Los Andes Limitada <sup>(1)</sup>	Chile	Ord	-	100
Kent Street Pty Limited	Australia	Ord	100	100
Mowla Pty Ltd	Australia	Ord	100	100
Aged Care Investment Services No.1 Pty Limited (formerly PHF No. 1 Management Pty Limited)	Australia	Ord	100	100
Aged Care Investment Services No.2 Pty Limited (formerly PHF No. 1 Pty Limited)	Australia	Ord	100	100
Principle Healthcare Finance Pty Limited	Australia	Ord	100	100
Quay Mining No 2 Limited	Bermuda	Ord, Red, Pref	84	84
Quay Mining Pty Limited	Australia	Ord	84	84
Scrabster Bay Pty Limited	Australia	Ord	100	100
KiwiKat Limited	New Zealand	Ord	70	70

Footnote:

<sup>(1)</sup>Controlling interest was disposed of in 2011.

Details of significant investments in controlled trusts and other entities are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	% Holdings	
		2011	2010
AMP Capital Asian Equity Growth Fund	Australia	73	94
AMP Capital Investors Australian Equity Long Short Fund	Australia	100	100
AMP Capital Credit Strategies	Australia	93	90
AMP Capital Macro Strategies	Australia	84	78
Australia Pacific Airports Fund	Australia	66	66
AMP Capital Investors Infrastructure Fund 1	Australia	53	100
AMP Capital Global Equities Sector Rotation Fund <sup>(1)</sup>	Australia	100	-
AMP Private Capital Trust No.4 <sup>(2)</sup>	Australia	-	100
AMP UK Shopping Centre Fund	Australia	100	100
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Australia	76	76
AHGI Martineau Galleries Fund	Australia	100	100
Principal Healthcare Holdings Trust	Australia	100	100
Riverside Plaza Trust	Australia	100	100
Sydney Cove Trust	Australia	52	52
AMP Life Cash Management Trust <sup>(1)</sup>	Australia	58	-
The Glendenning Trust	Australia	100	100
Global Credit Strategies Fund	Australia	87	87
Floating Rate Income Fund	Australia	77	81

Footnote:

<sup>(1)</sup> Controlling interest acquired in 2011.<sup>(2)</sup> Controlling interest was disposed of in 2011.



**Notes to the Financial Statements**

For the year ended 31 December 2011

**20. INVESTMENTS IN ASSOCIATED ENTITIES**Investments in associates held by the statutory fund measured at fair value through profit or loss <sup>(1)</sup>

COMPANIES <sup>(2)</sup>	PRINCIPAL ACTIVITY	Ownership interest		Carrying amount	
		2011 %	2010 %	2011 A\$M	2010 A\$M
TOA Pty Limited CTG	Investment Company	50	50	164	164
AMP Pencarrow Private Capital	Investment Company	34	34	2	9
<b>Total Parent</b>				<b>166</b>	<b>173</b>
<b>Investment by Controlled Entities of AMP Life Statutory Fund No. 1</b>					
Zeacom Group Limited <sup>(3)</sup>	Computer Technology	n/a	27%	-	2
<b>Total</b>				<b>-</b>	<b>2</b>
<b>Total Consolidated investments held in associated companies</b>				<b>166</b>	<b>175</b>

Details of investments in associated unit trusts are as follows:

UNIT TRUSTS <sup>(2)</sup>	Principal Activity	Ownership Interest		Carrying amount	
		2011 %	2010 %	2011 A\$M	2010 A\$M
AMP Capital Strategic NZ Shares Fund (formerly AIGE AIF Strategic Equity)	Investment Trust	33	33	127	127
AMP Capital NZ Shares Fund (formerly AMP Equity Fund)	Investment Trust	43	46	96	101
AMP Capital Global Shares Fund (formerly AMP Global Equities Fund)	Investment Trust	27	26	29	33
AMP Investments World Index Fund	Investment Trust	45	46	51	67
AMP Capital Property Portfolio (formerly AMP Property Portfolio)	Investment Trust	38	38	229	262
AMP Shopping Centre Fund	Investment Trust	28	35	486	560
Enhanced Index International Share Fund <sup>(3)</sup>	Investment Trust	n/a	31	-	553
Managed Treasury Fund	Investment Trust	21	20	548	667
Aged Care Investment Trust No.1 (formerly Principle Healthcare Finance Unit Trust 1)	Investment Trust	24	24	38	28
Aged Care Investment Trust No.2 (formerly Principle Healthcare Finance Unit Trust 2)	Investment Trust	24	24	38	28
Strategic Infrastructure Trust Europe No 1 <sup>(3)</sup>	Investment Trust	n/a	25	-	39
Strategic Infrastructure Trust Europe No 2 <sup>(3)</sup>	Investment Trust	n/a	25	-	39
Wholesale Australian Bond Fund <sup>(3)</sup>	Investment Trust	n/a	25	-	702
Others (less than \$30m)	Investment Trust	Various	Various	48	67
<b>Total investments held in associated trusts</b>				<b>1,690</b>	<b>3,273</b>

**Footnote:**<sup>(1)</sup> Investment in associated entities that back investment contract and life insurance contract liabilities are treated as financial assets and are carried at fair value. Refer to Note 1(h).<sup>(2)</sup> The balance date for all significant associated entities is 31 December.

In the course of normal operating investment activities the statutory fund holds investments in various operating businesses. Investments in associated entities reflect investments where the statutory fund holds between a 20% and 50% equity interest.

<sup>(3)</sup> Entity ceased to be associated in 2011.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 21. CONTINGENT LIABILITIES AND FORWARD INVESTMENTS

#### Contingent liabilities

AMP Life SF1 from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business including guarantees issued by AMP Life SF1 for performance obligations to controlled entities in the AMP Life SF1 group.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice seriously the position of AMP Life SF1 (or its insurers) in a dispute, accounting standards allow AMP Life SF1 not to disclose such information and it is AMP Life SF1's policy that such information is not to be disclosed in this note.

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

#### Forward investments

	Consolidated and Parent	
	2011	2010
	A\$M	A\$M
Forward investments – callable at any time		
Uncalled capital on shares in relation to: <sup>(1)</sup>		
- Associated entities	36	41
- Other entities	5	7
Uncalled capital on units in relation to: <sup>(1)</sup>		
- Controlled entities	23	23
- Other entities	1	-

#### Footnote:

<sup>(1)</sup> Uncalled capital represents a commitment to make further capital contributions for shares, unit trusts and certain private capital investments held within the statutory fund.

### 22. RELATED PARTY DISCLOSURES

#### (a) Key management personnel details

The following individuals were the key management personnel (being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise)) of AMP Life Limited for the whole or part of the reporting period as indicated:

Richard Grellman	Non-Executive Director	Resigned: 12 May 2011
Craig Dunn	Director, Chief Executive Officer – AMP Limited	
Catherine Brenner	Chairman, Non-Executive Director	
Anthony Coleman	Non-Executive Director	Appointed: 14 February 2011
Craig Meller	Managing Director – AMP Financial Services	
John Palmer	Non-Executive Director	
Peter Shergold	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Appointed: 1 July 2011

#### (b) Remuneration of key management personnel

The following table provides aggregate details of the compensation of key management personnel of AMP Life SF1. Key management personnel for AMP Life SF1 are considered to be the same as the key management personnel for AMP Life Limited.

Year	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
	A\$	A\$	A\$	A\$	A\$	A\$
2011	5,396,426	85,318	-	-	3,341,000	8,822,744
2010	6,058,136	73,482	-	-	3,025,000	9,156,618

**Notes to the Financial Statements**

For the year ended 31 December 2011

**22. RELATED PARTY DISCLOSURES (continued)****(c) Transactions with key management personnel**

During the year, key management personnel and their personally related entities have entered into transactions with AMP Life SF1. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect AMP Life SF1 would have adopted if dealing at arm's length with an unrelated individual. These transactions include:

- the purchase of AMP insurance and investment products
- financial investment services.

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

**(d) Transactions with key related parties**

Transactions with related parties are made at arm's length and on normal commercial terms. Outstanding balances at 31 December 2011 and 31 December 2010 are unsecured, non interest bearing and settlement occurs in cash or through inter-company accounts as necessary.

AMP Life SF1 purchases administrative services from AMP Services Limited and AMP Services (NZ) Limited on a fee service basis. (2011: \$348m, 2010: \$337m). Services purchased include product distribution, marketing, payroll, personnel, computing and accounting services.

AMP Life SF1 receives financial planning services from AMP Financial Planning Pty Limited, and is charged on commercial terms and conditions.

AMP Life SF1 has amounts in deposits with AMP Bank Limited (2011: \$3,252m, 2010: \$2,183m). Deposits earn interest at normal commercial rates.

The following table provides the total amount of significant transactions (greater than \$50 million) which AMP Life SF1 has entered into with related parties for the relevant financial year.

		For the year ended 31 December			As at 31 December	
		Investment revenue	Service, management and other fees paid to related parties	Amounts owed by related parties	Amounts owed to related parties	Cash holdings
		\$M	\$M	\$M	\$M	\$M
<b>Fellow subsidiaries of AMP Limited</b>						
AMP Bank Limited	2011	141	-	10	-	3,252
	2010	89	-	-	-	2,183
AMP Capital Investors	2011	-	-	-	-	-
	2010	-	65	-	-	-
AMP CMBS No. 2 Pty Ltd	2011	-	-	-	-	-
	2010	-	-	65	-	-
AMP Financial Planning	2011	-	112	5	-	-
	2010	-	108	-	-	-
AMP Life Ltd Australia Shareholders Funds	2011	-	-	-	145	-
	2010	-	-	-	200	-
AMP Life Ltd Statutory Fund 3	2011	-	-	-	-	-
	2010	-	-	-	52	-
AMP Life Ltd Statutory Fund 2	2011	4	-	183	17	-
	2010	-	-	213	-	-
AMP Planner Register Company	2011	-	-	-	-	-
	2010	-	-	88	-	-
AMP Services Limited	2011	-	311	-	-	-
	2010	-	281	-	-	-
AMP Services NZ Limited	2011	-	37	18	-	-
	2010	-	56	-	-	-
TOA Pty Limited	2011	-	-	-	159	-
	2010	-	-	-	159	-
Investment Trusts (various)	2011	236	-	-	-	-
	2010	182	-	-	-	-

**Notes to the Financial Statements**

For the year ended 31 December 2011

**23. AUDITORS' REMUNERATION**

	Consolidated 2011 A\$M	2010 A\$M	Parent 2011 A\$M	2010 A\$M
Amounts received or due and receivable by Auditors of the entity for:				
- Audit services	-	1	-	1
- Other services	-	-	-	-
<b>Total Auditors' remuneration</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>

All auditors' remuneration payable to the auditors of AMP Life SF1 for the audit of the controlled companies within AMP Life SF1 is settled by a related entity. Certain controlled property and private equity funds within AMP Life SF1 incur auditors' remuneration directly.

**24. EVENTS OCCURRING AFTER REPORTING DATE**

At the date of this report, the Directors are not aware of any matter or circumstance that has arisen since the reporting date which has significantly affected or may significantly affect the operations of AMP Life SF1, the results of its operations or its state of affairs, which is not already reflected in this report.

## Directors' Declaration

For the year ended 31 December 2011

In accordance with a resolution of the Directors of AMP Life Limited we state for the purposes of Section 9A(3) of the New Zealand Financial Reporting Act 1993 that, in the opinion of the Directors:

- (a) the AMP Life Limited Statutory Fund No. 1 financial statements and notes are in accordance with Section 9A(3) of the New Zealand Financial Reporting Act 1993, including compliance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the (Australian) Corporations Act 2001 as required by AASB114; and
- (b) there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable;

  
.....  
Director  
.....  
Director

Sydney, 07 May 2012

## **Independent auditor's report to the members of AMP Life Limited**

We have audited the accompanying special purpose financial report of AMP Life Limited Statutory Fund No.1 and its controlled entities, which comprises the statement of financial position as at 31 December 2011, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### ***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the financial reporting requirements of Section 9A(3) of the New Zealand Financial Reporting Act 1993 and are appropriate to meet the needs of the regulator. The directors are also responsible for such controls as they determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used are appropriate to the needs of the members.

We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

The financial report has been prepared for distribution to the New Zealand Companies Office for the purpose of fulfilling the directors' financial reporting requirements under Section 9A(3) of the New Zealand Financial Reporting Act 1993. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the regulator, or for any purpose other than that for which it was prepared.

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

### ***Independence***

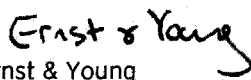
In conducting our audit we have met the independence requirements of the Australian professional accounting bodies.

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

In our opinion the financial report presents fairly, in all material respects, the company's and consolidated entity's financial positions as of 31 December 2011 and their financial performance and cash flows for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

### ***Basis of accounting***

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under Section 9A(3) of the New Zealand Financial Reporting Act 1993. As a result, the financial report may not be suitable for another purpose.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, likely belonging to Andrew Price.

Andrew Price  
Partner  
Sydney  
7 May 2012