AMP Life Limited
(New Zealand Branch)
ABN: 84 079 300 379

Financial Statements for the year ended 31 December 2012

AMP Life Limited (New Zealand Branch)
Financial Statements
31 December 2012

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

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

AMP Life Limited (New Zealand Branch)
Income statement for the year ended 31 December 2012

	Note	Consolidated 2012 $000	Consolidated 2011 $000	Parent 2012 $000	Parent 2011 $000
Income and expenses of shareholders, policyholders, and non-controlling interests					
Continuing Operations:					
Life insurance premium and related revenue	17(a)	220,309	212,263	220,309	212,263
Fee revenue	5(a)	161,092	84,579	2,470	3,026
Other revenue	5(b)	3,882	1,491	-	(25)
Investment gains and (losses)	5(c)	298,066	273,234	289,838	267,513
Life insurance claims and related expenses	17 (b)	(208,451)	(214,019)	(208,451)	(214,019)
Operating expenses	6(a)	(220,844)	(180,795)	(72,398)	(76,172)
Finance costs	6(b)	(119)	(319)	(109)	(293)
Change in policyholder liabilities					
- life insurance contracts	17(e)	(103,865)	29,710	(103,865)	29,710
- investment contracts	18(g)	(13,934)	292	(13,934)	292
Profit for the year before income tax		136,136	206,436	113,860	222,295
Income tax expense	7(a)	(50,798)	(107,227)	(45,507)	(111,039)
Profit from continuing operations after tax		85,338	99,209	68,353	111,256
Discontinued Operations:					
Profit / (loss) from discontinued operations after tax	8(a)	(13,644)	1,392	-	-
Profit for the year		71,694	100,601	68,353	111,256
Profit for the year is attributable to:					
Non-controlling interests		(7,557)	515	-	-
Shareholder of AMP Life Limited		79,251	100,086	68,353	111,256
Profit for the year		71,694	100,601	68,353	111,256

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 2012

	Consolidated		Parent	
	2012	2011	2012	2011
	$000	*$000*	*$000*	*$000*
Profit for the year	71,694	100,601	68,353	111,256
Other comprehensive income recognised in retained earnings				
Defined benefit plans				
- actuarial gains and (losses)	(1,049)	(7,128)	-	-
- income tax (expense) credit	294	1,996	-	-
	(755)	(5,132)	-	-
Other comprehensive income recognised in reserves				
- other gains	549	436	-	-
	549	436	-	-
Total comprehensive income for the year	71,488	95,905	68,353	111,256
Total comprehensive income for the year is attributable to:				
Non-controlling interests	(7,557)	515	-	-
Shareholder of AMP Life Limited	79,045	95,390	68,353	111,256
Total comprehensive income for the year	71,488	95,905	68,353	111,256

The accompanying notes form part of these financial statements

AMP Life Limited (New Zealand Branch)

Statement of financial position as at 31 December 2012

	Note	Consolidated 2012 $000	Consolidated 2011 $000	Parent 2012 $000	Parent 2011 $000
Assets					
Cash and cash equivalents	21(b)	**181,435**	137,713	**35,340**	26,339
Receivables	9	**105,651**	82,301	**59,791**	51,423
Current tax assets		**23,927**	13,585	**18,147**	4,444
Inventories and other assets	11	**2,210**	14,772	**-**	42
Investment in financial assets	10	**2,571,223**	2,464,517	**2,814,357**	2,604,218
Plant and equipment	12	**11,489**	11,365	**-**	-
Intangibles	13	**19,916**	19,048	**-**	-
Deferred tax assets	7(c)	**20,956**	15,267	**-**	-
Total assets of shareholder of AMP Life Limited, policyholders and non-controlling interests		**2,936,807**	2,758,568	**2,927,635**	2,686,466
Liabilities					
Payables	14	**62,719**	60,360	**129,325**	66,335
Provisions	15	**40,992**	31,320	**-**	-
Borrowings	16	**-**	3,534	**-**	-
Derivative financial liabilities	19(f)	**4,265**	13,628	**1,073**	397
Deferred tax liabilities	7(d)	**228,356**	215,176	**228,356**	215,176
Life insurance contract liabilities	17(e)	**1,917,075**	1,818,412	**1,917,075**	1,818,412
Investment contract liabilities	18(g)(ii)	**110,631**	113,324	**110,631**	113,324
Defined benefit plan liabilities	22(e)	**15,715**	17,248	**-**	-
Total liabilities of shareholder of AMP Life Limited, policyholders and non-controlling interests		**2,379,753**	2,273,002	**2,386,460**	2,213,644
Net assets of shareholder of AMP Life Limited and non-controlling interests		**557,054**	485,566	**541,175**	472,822
Equity					
Reserves		**1,596**	1,047	**-**	-
Retained earnings		**555,455**	476,959	**541,175**	472,822
Total equity attributable to shareholder of AMP Life Limited		**557,051**	478,006	**541,175**	472,822
Non-controlling interests		**3**	7,560	**-**	-
Total equity of shareholder of AMP Life Limited and non-controlling interests		**557,054**	485,566	**541,175**	472,822

For and on behalf of the Board who authorised these financial statements for issue on 3 May 2013:

C J Miller ....

Director

C. Brenner ....

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 2012

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
31 December 2012					
Balance at the beginning of the year	476,959	1,047	478,006	7,560	485,566
Profit for the year	79,251	-	79,251	(7,557)	71,694
Other comprehensive income	(755)	549	(206)	-	(206)
Total comprehensive income	78,496	549	79,045	(7,557)	71,488
Balance at the end of the year	555,455	1,596	557,051	3	557,054
31 December 2011					
Balance at the beginning of the year	382,005	611	382,616	7,045	389,661
Profit for the year	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

Parent

	Retained Earnings	Other reserves	Total shareholder equity
31 December 2012			
Balance at the beginning of the year	472,822	-	472,822
Profit for the year	68,353	-	68,353
Total comprehensive income	68,353	-	68,353
Balance at the end of the year	541,175	-	541,175
31 December 2011			
Balance at the beginning of the year	361,566	-	361,566
Profit for the year	111,256	-	111,256
Total comprehensive income	111,256	-	111,256
Balance at the end of the year	472,822	-	472,822

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 2012

	Note	Consolidated 2012 $000	Consolidated 2011 $000	Parent 2012 $000	Parent 2011 $000
Cash flows from operating activities					
Cash receipts in the course of operations		351,493	315,743	215,638	216,910
Interest received		101,613	98,460	47,208	39,809
Dividends and distributions received		1,249	510	1,052	283
Cash payments in the course of operations		(425,306)	(443,456)	(240,299)	(328,989)
Finance costs		(119)	(596)	(109)	(293)
Income tax refunded / (paid)		(53,605)	(41,332)	(46,030)	(40,047)
Cash flows from operating activities	21(a)	(24,675)	(70,671)	(22,540)	(112,327)
Cash flows from investing activities					
Net proceeds from sale of / (payments to acquire)[1]:					
- investments in financial assets measured at fair value		78,647	11,017	31,177	101,060
- investments in financial assets measured at amortised cost		1,128	3,246	364	6
Proceeds from disposal of controlled entity		4,000			
Purchase of plant and equipment		(7,718)	(1,596)	-	-
Purchase of intangibles		(7,660)	(12,877)	-	-
Cash flows from (used in) investing activities		68,397	(210)	31,541	101,066
Cash flows from financing activities					
Receipts from repayment of advances of borrowings		-	680	-	-
Cash flows from financing activities		-	680	-	-
Net increase (decrease) in cash and cash equivalents		43,722	(70,201)	9,001	(11,261)
Cash and cash equivalents at the beginning of the year		137,713	207,914	26,339	37,600
Cash and cash equivalents at the end of the year	21(b)	181,435	137,713	35,340	26,339

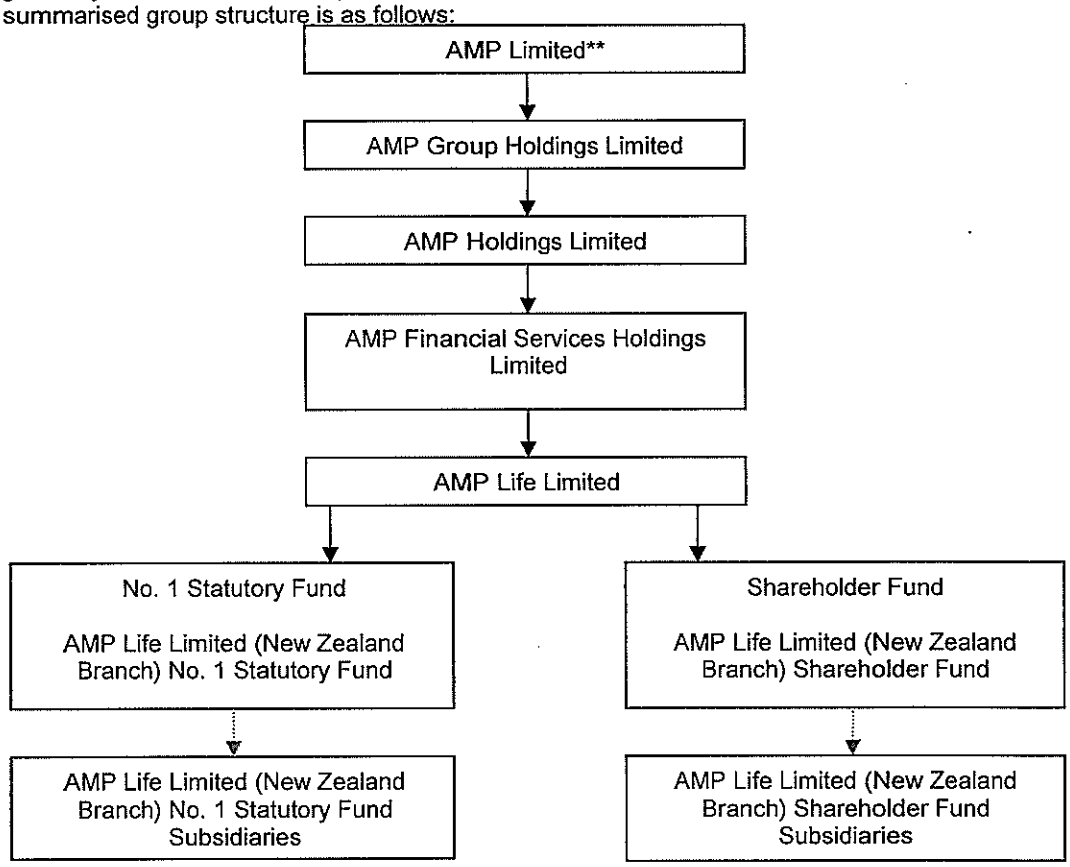
The accompanying notes form part of these financial statements

[1] The amounts shown represent the net cash flows for the financial year.

1. CORPORATE INFORMATION

Reporting entity

In February 2012 the Reserve Bank of New Zealand ("RBNZ") granted AMP Life Limited ("AMP Life") a provisional licence to carry on insurance business under the Insurance (Prudential Supervision) Act 2010* ("Insurance Act"). AMP Life is incorporated in New South Wales, and registered under Australia's Life Insurance Act 1995 ("Life Act"). AMP Life carries on its life insurance business in New Zealand through a Branch establishment and is deemed to be an "issuer" as defined under the New Zealand Financial Reporting Act 1993. AMP Life 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:



* As part of the grant of that licence, AMP Life was granted certain exemptions from the Act by virtue of its status as an Australian regulated entity. This status requires AMP Life to ensure that it meets all standards and regulations applicable in Australia and enforced by the Australian Prudential Regulation Authority. AMP Life is currently working with the RBNZ to obtain a full New Zealand licence by the statutory deadline, September 2013.

**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 the AMP Life New Zealand branch (hereafter referred to as the 'Branch' or 'Parent') are conducted within a separate statutory fund as required by the Life Act, and are reported in aggregate in the Income statement, Statement of comprehensive income, Statement of financial position, Statement of changes in equity and the Statement of cash flows. Further information on the Statutory Fund and Shareholders' Fund is provided in Note 18.

For the purpose of these financial statements the parent entity comprises AMP Life Limited (New Zealand Branch) No. 1 Statutory Fund ("SF1") and AMP Life Limited (New Zealand Branch) Shareholder Fund ("Shareholder Fund"). The consolidated entity comprises the parent entity and the subsidiaries of each of the Statutory Fund and the Shareholder Fund. These financial statements have been prepared as if this were a group formed and registered in New Zealand. In line with this approach the AMP Life 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.

1. CORPORATE INFORMATION (CONTINUED)

Reporting entity (continued)

AMP Life is the registered issuer of life insurance policies in New Zealand. The liability under New Zealand policies is limited to the AMP Life Limited No.1 Statutory Fund (the "Fund"). The No.1 Statutory Fund forms part of AMP Life. As the assets included and policies issued in the Branch are a component of the AMP Life Limited No. 1 Statutory Fund, New Zealand life insurance policyholders should refer to the financial statements of AMP Life Limited No. 1 Statutory Fund to gain an understanding of the financial affairs of the Fund.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the current year and comparative period, 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 2012 were authorised by the Directors of AMP Life on 3 May 2013. 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), unless otherwise stated.

The financial statements are also prepared in a manner consistent with the financial reporting requirements of:
- The Insurance (Prudential Supervision) Act 2010 ("Insurance Act")
- The Australian Life Insurance Act 1995 ("Life Act"), and
- Prudential Standards issued by Australian Prudential Regulation Authority (APRA) ("Prudential Standards")

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 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 2012, the Branch has adopted all New Zealand Equivalents to International Financial Reporting Standards and Interpretations which have become effective for annual periods beginning on or after 1 January 2012, including:
- *NZ IFRS 7 Financial Instruments: Disclosures – Disclosures on Transfer of Financial Assets*
- *FRS-44 New Zealand Additional Disclosures*
- *Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards*
- *NZ IAS 12 Amendments to Income Taxes — Deferred Tax: Recovery of Underlying Assets*

Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the Branch.

Change in presentation of the Statement of cash flows
The 2011 comparatives in the Statement of cash flows has been revised to treat reinvested distributions as non-cash transactions. Previously, reinvested distributions had been included in the Statement of cash flows on a gross basis. These changes have resulted in:

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

(a) Basis of preparation (continued)

Consolidated (2011 figures)
- a decrease in Dividends and distributions received of $19.9m;
- a decrease in Cash flows from operating activities of $19.9m
- a decrease in Net payments to acquire investments in financial assets of $19.9m
- a decrease in Cash flows used in investing activities of $19.9m

There was no impact in the Parent in the comparative period.

Issued standards that are not yet effective
A number of new Accounting standards have been issued but not yet effective during 2012. The Branch has elected not to early adopt any new standards or amendments in these financial statements. The Branch is still evaluating the potential impact of these accounting standards and amendments when applied to future periods, however they are not expected to have a material impact on the financial position or performance of the Branch. The most significant issued standards that are not yet effective are as follows:
- *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 is mandatory for adoption by the Branch in the year ending 31 December 2015.*
- *NZ IFRS 9 Financial instruments: Recognition and Measurement. This standard makes changes to the accounting for financial assets and financial liabilities. NZ IFRS 9 is mandatory for adoption by the Branch in the year ending 31 December 2015.*
- *NZ IFRS 10 Consolidated Financial Statements. This standard introduces a new control model which may lead to more entities being consolidated. NZ IFRS 10 is mandatory for adoption by the Branch in the year ending 31 December 2013.*
- *NZ IFRS 12 Disclosure of Interests in Other Entities. This standard requires summarised information about associates and subsidiaries with non-controlling interests. NZ IFRS 12 is mandatory for adoption by the Branch in the year ending 31 December 2013.*
- *NZ IFRS 13 Fair Value Measurement. This standard centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards and removes some minor inconsistencies that previously existed between the guidance for determining fair value in these standards. The new standard requires quantitative and qualitative disclosures of all fair value measurements. NZ IFRS 13 is mandatory for adoption by the Branch in the year ending 31 December 2013.*
- *NZ IAS 1 Presentation of Other Comprehensive Income. This standard 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. NZ IAS 1 is mandatory for adoption by the Branch in the year ending 31 December 2013.*
- *NZ IAS 19 Employee Benefits. This standard revises the method of accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans are recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revises the method of calculating the return on plan assets. Under the revised standard it is appropriate to use a gross of investment tax discount rate. A preliminary estimate of the superannuation expense for the year ended 31 December 2013, using a discount rate of 3.6% (compared to the 2.6% discount rate used at 31 December 2012) is an expense item of $0.4m (this compares to the 2012 income item of $0.4m). The increase in the superannuation expense is mostly due to the removal of the expected return on assets component. The value of the defined benefit liability is expected to decrease by approximately $3m. NZ IAS 19 is mandatory for adoption by the Branch in the year ending 31 December 2013.*
- *NZ IAS 32 Amendments to Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities. These amendments clarify the meaning of "currently has legally enforceable right to set off". The amendments also clarify the application of the NZ IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. NZ IAS 32 is mandatory for adoption by the Branch in the year ending 31 December 2014.*

(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').

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

(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 majority of the Branch's investments are held through controlling interests in 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.

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.

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's liability attributable to the Branch 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 in the Statement of financial position. In the Statement of comprehensive income, the profit or loss of the Branch is allocated between profit or loss attributable to non-controlling interests and profit or loss attributable to the parent entity.

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 include the results for the part of the reporting period during which the parent entity had control.

The majority of the Branch's statutory fund's investments are held through controlling interests in unit trusts and companies. These investment assets are held on behalf of policyholders and the Branch's statutory fund recognises a liability to the policyholders valued as described in Note 2(r) 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 shareholder of AMP Life.

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 *policy-holders*.

Life insurance contracts
The Branch 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*.

Investment contracts
Part of the business of the Branch relates to wealth-management products such as savings, investment linked and retirement income 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.

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

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

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 2(s) and life insurance contract liabilities are measured as described in Note 2(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 accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described later in Note 2.

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

To ensure consistency across the Branch 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).

(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 measured at fair value, being the principal amount. 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.

(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 measured at nominal amounts due, less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full amount is no longer probable. Bad debts are written off as incurred. Given the short-term nature of most receivables, the recoverable amount approximates fair value

(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, the 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 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 2(p).

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

(g) Investments in financial assets (continued)

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 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 measured at amortised cost using the effective interest rate method.

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 and are valued in the same manner as equity securities described in this note.

(h) Associates

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 financial assets described in Note 2(g).

(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

Capitalised costs
Capitalised costs which primarily reflect software and software development costs, are capitalised only when the Branch 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. Otherwise, all costs are recognised as expenses in the period in which they are incurred. Capitalised costs are amortised over the useful life of the asset, 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). Capitalised costs are initially recognised at cost and subsequently measured at cost less accumulated amortisation and any impairment in value.

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

(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.

(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 measured at fair value through profit or loss are not subject to impairment testing. Other assets such as property, plant and equipment and intangible assets including goodwill 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.

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.

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

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

Income tax for investment contracts and life insurance contracts business
The income tax expense recognised in the Income statement of the Branch reflects tax imposed on the shareholder as well as policyholders.

Investment contract liabilities and life insurance contract 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 the Life Act. Risk business policy liabilities for the Life Act purposes is calculated on a before tax basis.

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

(m) Taxes (continued)

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.

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
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, and
- 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.

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

(o) Provisions (continued)

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 reporting 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.

(p) Derivative financial assets 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 exclusive of any transaction costs on the date on which a derivative contract is entered into and are subsequently remeasured to 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.
Changes in the fair value of derivative financial instruments are recognised in the Income statement in the period in which they arise.

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 for financial assets 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 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 a third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

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

(r) 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 planned release of this margin is included in the movement in life insurance contract liabilities recognised in the Income statement.

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

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to the shareholder is only allowed 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.

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

(i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and the shareholder in proportion to the balances of policyholders' and the shareholder's retained earnings. This proportion is 80 per cent policyholders and 20 per cent shareholder.
(ii) Other MoS profits arising from discretionary participating business are allocated 80 per cent to policyholders and 20 per cent to the shareholder, except for the profit arising from corporate superannuation business, which is apportioned such that the shareholder is allocated 15 per cent 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 statutory fund (excluding retained earnings dealt with in (i) above) are allocated to the shareholder.

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 which are directly attributable to an individual life insurance contract or investment contract are allocated directly to a particular expense category, class of business and product line as appropriate.

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

(r) Life insurance contract liabilities (continued)

Allocation of expenses within the life statutory fund (continued)
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 APRA Prudential 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 fund are classified as operating expenses (see note 2(y)).

(s) Investment contract liabilities

An investment contract consists 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 accounting standards prevent those assets from being measured at fair value.

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 fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

(t) 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.

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

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

(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 amounts 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(y).

Fees for on-going 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.

(w) Investment gains or losses

Dividend and interest income are recognised in the Income statement on an accruals basis when the Branch obtains control of the right to receive the revenue.

Net realised and unrealised gains and losses represent the change in value between the previously reported value and the amount received on sale of the asset as well as changes in the fair value of financial assets recognised in the period.

(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 2(s)).

(y) Operating expenses

All operating expenses, other than those allocated to life insurance contracts (see note 2(r)), 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(v)).

Operating lease payment
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 lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

2. 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
(iii) Foreign exchange gains and losses and other financing related amounts.

Borrowing costs are recognised as expenses when incurred.

(aa) Superannuation funds

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.

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.

(bb) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income and the assets and liabilities are presented separately on the face of the statement of financial position.

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 date 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) Consolidation

Entities are included within the consolidated financial statements of the Branch where the Branch has control of these entities, being the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Judgement is applied by management in assessing whether control exists, and in particular whether the rights held by the Branch amount to being the power to govern the financial and operating policies of those entities and whether the Branch is able to use such power to obtain benefits from the activities of the entities.

(b) 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. Further detail on the determination of fair value of financial instruments is set out in note 19.

(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.

(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 15 sets out further information on provisions and Note 26 provides information of contingent liabilities which management determined did not meet the criteria for recognition as provisions.

(e) Life Insurance contract liabilities

The measurement of life 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 is responsible for these judgements and assumptions. Further detail on the determination of life insurance contract liabilities is set out in Note 17.

(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 the fair value of backing assets, and does 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.

4. SEGMENT INFORMATION

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

5. REVENUE AND INVESTMENT INCOME

		Consolidated		Parent	
		2012	2011	2012	2011
	Note	$000	$000	$000	$000
(a) Fee revenue					
Investment management fees		6,195	3,857	2,470	3,026
Service fees[1]		154,897	80,722	-	-
Total fee revenue		161,092	84,579	2,470	3,026
(b) Other revenue					
Other revenue[2]		3,882	1,491	-	(25)
Total other revenue		3,882	1,491	-	(25)
(c) Investment gains and (losses)					
Interest[3]					
- other entities		101,572	99,289	47,219	40,323
Dividends and distributions					
- subsidiaries		-	-	1,019	-
- associated entities		9,276	12,651	32	66
- other entities		19,668	7,789	703	218
Net realised and unrealised gains and losses[4]		167,014	150,454	240,945	226,913
Other investment income		536	3,051	(80)	(7)
Total investment gains and (losses)		298,066	273,234	289,838	267,513

Investments in financial assets at fair value through profit or loss				
Equity securities and listed managed investment schemes	6,561	(4,153)	196,870	38,092
Debt securities	48,163	63,323	1,628	1,034
Investments in unlisted investment schemes	145,933	(40,923)	(2,732)	558
Derivative financial assets	85,590	238,414	91,851	223,801
Investments in financial assets at amortised cost				
Debt securities	3,797	3,979	-	-
Other investment gains				
Bank and other	7,486	9,543	2,301	4,035
Miscellaneous income	536	3,051	(80)	(7)
Total investment gains and (losses)	298,066	273,234	289,838	267,513

[1] 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.
[2] Other revenue includes trading revenue (other than that received through service fees) from business operations in which the Branch holds a controlling interest.
[3] Interest includes interest income from financial assets measured at fair value through profit or loss, designated as such upon initial recognition.
[4] 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.

6. EXPENSES

		Consolidated		Parent	
		2012	2011	2012	2011
	Note	*$000*	*$000*	*$000*	*$000*
(a) Operating expenses					
Commission expense		64,804	60,076	22,291	23,523
Investment management expenses		12,552	11,358	1,505	874
Fee and commission expenses		77,356	71,434	23,796	24,397
Wages and salaries		55,187	39,773	-	-
Superannuation costs – defined contribution scheme		4,107	2,170	-	-
Other staff costs		713	500	-	-
Staff and related expenses		60,007	42,443	-	-
Service fee expense – related parties	27(c)(ii)	11,548	9,520	46,386	48,590
Service fee expense recovery – related parties	27(c)(ii)	(14,368)	-	-	-
Auditor's remuneration – audit services (group entities)	28	574	455	304	264
Auditor's remuneration – other assurance related services	28	183	255	-	272
Minimum lease payments - Operating lease		4,905	2,240	-	-
Depreciation and amortisation		3,823	3,835	-	-
Impairment		-	21	-	21
IT and communication		25,253	24,085	3	4
IT consulting		16,420	8,944	23	185
Other expenses		35,143	17,563	1,886	2,439
Other operating expenses		83,481	66,918	48,602	51,775
Total operating expenses		220,844	180,795	72,398	76,172
(b) Finance costs					
Interest expense on borrowings		15	34	5	8
Other finance costs		104	285	104	285
Total finance costs		119	319	109	293

7. INCOME TAX

	Consolidated		Parent	
	2012	2011	2012	2011
	$000	*$000*	*$000*	*$000*
(a) Analysis of income tax expense				
Current tax expense	39,361	24,636	31,681	25,338
(Decrease) / increase in deferred tax assets	(3,055)	(2,922)	-	-
Increase in deferred tax liabilities	13,180	87,353	13,180	87,353
Under / (over) provided in previous years including amounts attributable to policyholders:				
- current tax	3,677	(4,877)	646	(1,730)
- deferred tax	(2,634)	2,982	-	-
Other	269	55	-	78
Income tax expense	50,798	107,227	45,507	111,039

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% (2011: 28%) 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 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% (2011: 28%).

	Consolidated		Parent	
	2012	2011	2012	2011
	$000	$000	$000	$000
Profit before income tax from continuing operations	136,136	206,436	113,860	222,295
Profit (loss) before tax from discontinued operations	(13,688)	1,553	-	-
Total profit before income tax	122,448	207,989	113,860	222,295
Policyholder tax expense recognised as part of the change in policyholder liabilities in determining profit before income tax	(35,716)	(72,571)	(35,716)	(72,571)
Profit before income tax excluding policyholder tax	86,732	135,418	78,144	149,724
Prima facie shareholder tax at the rate of 28% (2011: 28%)	24,285	37,917	21,880	41,923
Tax effect of the differences between recognition of income statement items for accounting and those deductible / assessable in calculating taxable income:				
Shareholder impact of par-business tax treatment	(9,148)	(37,322)	(9,148)	(37,322)
Non-taxable or deductible items	3,557	(583)	2,953	(565)
Investment revenue related items	(7,490)	5,434	(7,520)	5,434
Tax offsets and credits	-	(7)	-	16
Deferred tax on policy liabilities	3,632	30,799	3,632	30,799
Other items	(841)	474	(1,442)	(1,370)
Over / (under) provided in previous years after excluding amounts attributable to policyholders	1,043	(1,895)	(564)	(447)
Income tax expense attributable to shareholder	15,038	34,817	9,791	38,468
Income tax expense attributable to policyholders	35,716	72,571	35,716	72,571
Aggregate Income Tax expense	50,754	107,388	45,507	111,039
Income Tax expense attributable to:				
Continuing operations	50,798	107,227	45,507	111,039
Discontinued operations	(44)	161	-	-
	50,754	107,388	45,507	111,039
(c) Analysis of deferred tax asset				
Accruals and provisions	12,786	9,803	-	-
Plant and equipment and capitalised costs	8,170	5,464	-	-
Total deferred tax assets	20,956	15,267	-	-
(d) Analysis of deferred tax liability				
Deferred acquisition cost within policy liabilities	161,439	157,806	161,439	157,806
Fair value adjustments on investments	43,565	31,339	43,565	31,339
Accruals and provisions	(78)	(72)	(78)	(72)
Portfolio Investment Entity allocated losses	23,430	26,103	23,430	26,103
Total deferred tax liabilities	228,356	215,176	228,356	215,176

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 (2011: nil) in either the Branch or the Group.

(f) Dividend withholding payment account

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

	Consolidated and Parent	
	2012	2011
	$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	
	2012	2011	**2012**	2011
	$000	*$000*	***$000***	*$000*
Closing balance	**323,688**	292,212	**274,866**	249,978

8. DISCONTINUED OPERATIONS

In June 2012, the Board of a controlled entity in which the Branch has an investment, disposed of its investment in the Donaghys group of companies (which was involved in the agricultural and marine industries).

(a) Financial performance of operations disposed of:

	Consolidated	
	2012	2011
	$000	*$000*
Revenue	**6,700**	16,301
Expenses	**(7,213)**	(14,748)
Loss on Disposal	**(13,175)**	-
Profit (loss) for the year before income tax	**(13,688)**	1,553
Income tax (expense) credit	**44**	(161)
Profit (loss) from discontinued operations for the year	**(13,644)**	1,392
Profit (loss) attributable to non-controlling interests	**7,557**	(515)
Profit (loss) from discontinued operations attributable to the shareholder of AMP Life Limited	**(6,087)**	877

The comparative information in the Income statement has been restated to reflect the results of the discontinued operations.

8. DISCONTINUED OPERATIONS (CONTINUED)

(b) The major assets and liabilities of the Donaghys group at the date of disposal were as follows:

	$000
Receivables	12,031
Inventories and other assets	13,231
Plant and equipment	4,824
Intangibles	5,207
Other assets	113
	35,406
Payables	(7,993)
Borrowings	(3,534)
Other liabilities	(4,342)
	(15,869)
Net assets attributable to discontinued operations	**19,537**

(c) Consideration received or receivable:

	2012 $000
Cash	4,000
Present value of deferred sales proceeds	2,362
Total disposal consideration	6,362
Less net assets disposed of	19,537
Loss on disposal before income tax	(13,175)
Income tax credit	44
Loss on disposal after income tax	**(13,131)**

(d) Net cash flows of operations disposed of:

	2012 $000	2011 $000
Operating activities	73	1,482
Investing activities	-	(1,446)
Financing activities	(73)	(36)
Net cash inflow / (outflow)	-	-

9. RECEIVABLES

	Consolidated		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Reinsurers' share of life insurance contract liabilities	12,668	8,008	12,668	8,008
Reinsurance and other recoveries receivable	6,580	5,550	6,580	5,550
Investment income, sales proceeds and margins receivable[1]	5,953	6,787	2,142	1,488
Life insurance contract premiums receivable	30,427	29,786	30,427	29,786
Other receivables				
- related entities	24,999	1	1,756	583
- other entities	25,024	32,169	6,218	6,008
Total receivables	**105,651**	82,301	**59,791**	51,423

For the Parent Nil (2011: Nil) and for the Group $7.4m (2011: $7.9m) of total receivables is expected to be recovered more than 12 months from reporting date.

[1] Receivables backing insurance and investment liabilities and carried at fair value.

10. INVESTMENTS IN FINANCIAL ASSETS

	Consolidated		Parent	
	2012	2011	**2012**	2011
	$000	*$000*	***$000***	*$000*
Investments in financial assets measured at fair value through profit or loss				
Investments in controlled entities backing insurance contract liabilities and investment liabilities	**-**	-	**1,515,700**	1,328,149
Equity securities and listed managed investment schemes	**10,484**	79,527	**-**	-
Debt securities	**949,888**	927,738	**36,011**	34,981
Investments in unlisted managed investment schemes	**1,332,613**	1,184,017	**16,251**	19,603
Derivative financial assets[1]	**224,632**	218,501	**173,244**	147,970
Total investment in financial assets measured at fair value through profit or loss	**2,517,617**	2,409,783	**1,741,206**	1,530,703
Investments in financial assets measured at amortised cost				
Investment in controlled entities by the Shareholder Fund	**-**	-	**2,005**	2,005
Loans	**53,606**	54,734	**-**	-
Loans to controlled entities	**-**	-	**1,071,146**	1,071,510
Total investments measured at amortised cost	**53,606**	54,734	**1,073,151**	1,073,515
Total investment in financial assets	**2,571,223**	2,464,517	**2,814,357**	2,604,218

(1) All financial assets are designated at fair value through profit or loss with the exception of derivative financial assets that are classified as trading under NZ IAS 39,

11. INVENTORIES AND OTHER ASSETS

	Consolidated		Parent	
	2012	2011	**2012**	2011
	$000	*$000*	***$000***	*$000*
Inventories	**-**	13,231	**-**	-
Prepayments	**2,210**	1,541	**-**	42
Total inventories and other assets	**2,210**	14,772	**-**	42

(i) The inventory held by the Group related to inventory of an investment in a controlled entity involved in the agricultural and marine industries. This investment was disposed of in June 2012.
(ii) There has been no impairment of inventory during the reporting period (2011: $nil)
(iii) All other assets are expected to be recovered within 12 months from the reporting date.

12. PLANT AND EQUIPMENT

31 December 2012 Consolidated	Office fittings, furniture and equipment $000	Computer & communication equipment $000	Total $000
Plant and equipment			
Gross carrying amount	10,864	14,901	25,765
Less: accumulated depreciation and impairment losses	(5,969)	(8,307)	(14,276)
Plant and equipment at written down value	4,895	6,594	11,489
Movements in plant and equipment			
Balance at the beginning of the year	10,360	1,005	11,365
Additions	2,215	5,503	7,718
Disposals	(5,356)	-	(5,356)
Depreciation expense for the period	(1,133)	(1,267)	(2,400)
Reclassification between asset classes	(1,191)	1,191	-
Transfer from intangible assets	-	162	162
Balance at the end of the year	4,895	6,594	11,489

31 December 2011 Consolidated	Office fittings, furniture and equipment $000	Computer & communication equipment $000	Total $000
Plant and equipment			
Gross carrying amount	17,088	9,237	26,325
Less: accumulated depreciation and impairment losses	(6,728)	(8,232)	(14,960)
Plant and equipment at written down value	10,360	1,005	11,365
Movements in plant and equipment			
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 period	(1,659)	(742)	(2,401)
Balance at the end of the year	10,360	1,005	11,365

There was no restriction on the title of any assets as at 31 December 2012 or 2011.

13. INTANGIBLES

31 December 2012 Consolidated	Goodwill *$000*	Other intangibles *$000*	Total *$000*
Intangibles			
Gross carrying amount	-	47,207	47,207
Less: accumulated amortisation and impairment losses	-	(27,291)	(27,291)
Intangibles at written down value	-	19,916	19,916
Movements in intangibles			
Balance at the beginning of the year	1,320	17,728	19,048
Additions	-	7,660	7,660
Disposals	(1,320)	(3,887)	(5,207)
Amortisation expense	-	(1,423)	(1,423)
Transfer to plant and equipment	-	(162)	(162)
Balance at the end of the year	-	19,916	19,916

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

14. PAYABLES

	Consolidated		Parent	
	2012 *$000*	2011 *$000*	2012 *$000*	2011 *$000*
Life insurance contracts in process of settlement	22,919	19,710	22,919	19,710
Other payables				
- subsidiaries and related entities	8,871	5,247	93,329	36,168
- reinsurers	5,682	5,710	5,682	5,710
- other entities	25,247	29,693	7,395	4,747
Total payables	62,719	60,360	129,325	66,335

$2.0m (2011: $2.0m) of payables are expected to be settled more than 12 months from reporting date.

15. PROVISIONS

	Consolidated		Parent	
	2012	2011	**2012**	2011
	$000	*$000*	***$000***	*$000*
(a) Provisions				
Employee entitlements	**12,156**	6,555	**-**	-
Loyalty bonuses	**21,421**	18,991	**-**	-
Rectification	**5,707**	4,365	**-**	-
Other	**1,708**	1,409	**-**	-
Total provisions	**40,992**	31,320	**-**	-

Consolidated	Employee entitlements	Loyalty bonuses	Rectification	Other	Total
	$000	*$000*	*$000*	*$000*	*$000*
(b) Movements in provision					
Balance at the beginning of the year	**6,555**	**18,991**	**4,365**	**1,409**	**31,320**
Additional provisions made during the year	**10,314**	**3,868**	**2,054**	**1,601**	**17,837**
Provisions used during the year	**(4,252)**	**(1,438)**	**(542)**	**(1,302)**	**(7,534)**
Reversal of unused provision	**(461)**	**-**	**(170)**	**-**	**(631)**
Balance at the end of the year	**12,156**	**21,421**	**5,707**	**1,708**	**40,992**

Employee entitlements
Employee entitlements include provision for holiday pay and long service leave.

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 over the next few years.

Other Provisions
Other provisions include restructuring and onerous contracts provisions. The restructuring provision relates to costs incurred in the process of significantly restructuring operational areas of the business. Prior to 31 December 2012 the Branch undertook action, incurred the obligation and was committed to this expenditure (e.g. the AXA integration has commenced and a restructuring plan was drawn up). The provision is determined based on the Branch's following policy:

- Eight times One Week's Salary for the employee's first year of current continuous service with the Company or part year thereof; plus
- Two times One Week's Salary for each subsequent year of service or part year thereof. The amount is based on their current salary determined at the date of termination.

The onerous contracts provision represents the lease commitments and make good costs on a building that AMP has moved out of but has an obligation to make good the premises. As well as the obligation for make good costs relating to current premises occupied by AMP. The provisions are expected to be utilised by mid 2013 and in 2021.

15. PROVISIONS (CONTINUED)

Consolidated 2012	Employee entitlements $000	Loyalty bonuses $000	Rectification $000	Other $000	Total $000
Current	11,526	1,499	4,246	1,354	18,625
Non-Current	630	19,922	1,461	354	22,367
	12,156	21,421	5,707	1,708	40,992

Consolidated 2011	Employee entitlements $000	Loyalty bonuses $000	Rectification $000	Other $000	Total $000
Current	6,555	1,329	4,365	1,409	13,658
Non-Current	-	17,662	-	-	17,662
	6,555	18,991	4,365	1,409	31,320

16. BORROWINGS

	Consolidated 2012 $000	Consolidated 2011 $000	Parent 2012 $000	Parent 2011 $000
Borrowings				
Bank loans	-	3,534	-	-
Total borrowings	-	3,534	-	-

The bank loans were secured by a charge over certain assets and undertakings of the controlled entity who was party to the borrowings. These borrowings were fully repaid in the current year.

17. LIFE INSURANCE CONTRACTS

	Consolidated and Parent	
	2012	2011
	$000	*$000*
(a) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premiums received and receivable	219,697	221,180
Less: component recognised as change in life insurance contract liabilities	(14,359)	(18,724)
Life insurance contract premium revenue [1]	205,338	202,456
Reinsurance recoveries	14,971	9,807
Total life insurance contract premium and related revenue	220,309	212,263
(b) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	218,279	222,507
Less: component recognised as a change in life insurance contract liabilities	(24,222)	(22,347)
Life insurance contract claims expense	194,057	200,160
Outwards reinsurance expense	14,394	13,859
Total life insurance contract claims and related expense	208,451	214,019
(c) Analysis of life insurance operating expenses		
Life insurance contract acquisition expenses		
- Commission	8,109	9,330
- Other expenses	18,288	21,135
Life insurance contract maintenance expenses		
- Commission	13,976	13,990
- Other expenses	29,667	29,867
Investment management expenses	4,930	4,234
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- Value of future life insurance contract benefits	2,282,273	2,290,445
- Value of future expenses	444,322	422,882
- Value of future premiums	(2,188,743)	(2,167,749)
Value of future profits		
- Life insurance contract holder bonuses	394,678	326,901
- shareholders' profit margins	380,610	360,307
Total life insurance contract liabilities determined using projection method	1,313,140	1,232,786
Life insurance contract liabilities determined using accumulation method		
Best estimate liability		
- Value of future life insurance contract benefits	122,186	124,456
Total life insurance contract liabilities determined using accumulation method	122,186	124,456
Value of declared bonus	16,818	23,188
Unvested policyholder benefits liabilities [2]	452,263	429,974
Total life insurance contract liabilities before reinsurance	1,904,407	1,810,404
Add: Reinsurers share of life insurance contract liabilities	12,668	8,008
Total life insurance contract liabilities per the Statement of financial position	1,917,075	1,818,412

[1] Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.
[2] 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 policyholder benefits liabilities and is included within life insurance contract liabilities even though it is yet to be vested as specific policyholder entitlements.

17. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated and Parent 2012 $000	2011 $000
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	**1,818,412**	1,849,916
Change in life insurance contract liabilities recognised in the Income statement	**103,865**	(29,710)
Changes in reinsurers' share of life insurance contract liabilities	**4,661**	1,829
Premiums recognised as an increase in life insurance contract liabilities	**14,359**	18,724
Claims recognised as a decrease in life insurance contract liabilities	**(24,222)**	(22,347)
Total life insurance contract liabilities at the end of the year	**1,917,075**	1,818,412

(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(r) 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
Retail Risk (lump sum)	Projection	Expected premiums
Retail Risk (income benefits)	Projection	Expected claims
Group Risk (lump sum)	Accumulation	N/A
Group Risk (income benefits)	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[(1)]:

Business Type	Basis	31 December 2012	31 December 2011
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	2.5% - 4.1%	2.5% - 4.1%
Group risk and Retail risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	2.8% - 4.4%	2.8% - 4.4%
Life annuities (non-CPI)	Zero coupon government bond yield curve (including liquidity premium)	2.9% - 4.5%	2.8% - 4.8%
Life annuities (CPI)	Government indexed bond yield curve (including liquidity premium)	1.0% - 2.0%	1.3%

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

17. 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 (eg 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 premiums which reflect the relative differences in expected future earning rates for different asset sectors. For products backed by mixed portfolio assets, the assumption varies with the proportion of each asset sector backing the product. The risk premiums applicable at the valuation dates are shown in the table below:

	10 Year Government Bonds	Local equities	International equities	Property	Fixed interest	Cash
31 December 2012	**3.6%**	**4.5%**	**3.5%**	**2.5%**	**0.8%**	**(0.5%)**
31 December 2011	3.8%	4.5%	3.5%	2.5%	0.8%	(0.5%)

The risk premium for local equities includes allowance for imputation credits. The risk premium 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 2012	**40%**	**17%**	**37%**	**6%**
31 December 2011	40%	17%	37%	6%

The asset mix in the table above includes both conventional and investment account business. 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
- on going 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 2011 in parentheses):

Reversionary Bonus

Bonus on sum insured	0.4%-0.7% (0.3%-0.5%)
Bonus on existing bonuses	0.4%-0.7% (0.3%-0.5%)

17. 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) 2.9%-3.1% (2.4%-2.9%)

(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 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 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 31 December 2012 are 2.5% for CPI and 3.0% for expenses (31 December 2011: 2.5% 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 historical experience. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration premium structure, smoker status, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups the range of voluntary discontinuance rates across AMP Life is extremely diverse.

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

Business Type	31 December 2012	31 December 2011
Conventional	1.3 % - 2.5 %	1.3 % - 2.5 %
Retail risk (lump sum)	10.5 % - 12.0 %	10.5 % - 12.0 %
Retail risk (income benefit)	7.0% - 12.0%	7.0% - 12.0%

Voluntary discontinuance assumptions are unchanged from those used at 31 December 2011.

17. 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. They are then adjusted by factors that take account of AMP Life's own experience.

Rates of mortality assumed at 31 December 2012 are unchanged from those assumed at 31 December 2011, except for conventional business – added an adjustment to allow for future mortality improvements.

Typical mortality assumptions in aggregate, are as follows:

Conventional	73% (M/F) IA95 – 97[1]
Term	63% (M/F) IA95 – 97
Annuities	95% IML00* / 80% IFL00*

Footnote:

i. Base IA 95-97 table modified for future mortality improvements

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.

Typical morbidity assumptions in aggregate are as follows:

	Incidence rates - % of IAD89-93	Termination rates(ultimate) - % of IAD89-93
Income protection	60%	54%-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 recent claims experience. Trauma assumptions at 31 December 2012 are unchanged from those used at 31 December 2011.

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 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.
IAD89-93	A disability table developed by the Institute of Actuaries of Australia based on Australian disability income experience from 1989 - 1993.

17. 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 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 2011 to 31 December 2012 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	(10,221)	58	(58)
Mortality and morbidity	8,187	-	-
Discontinuance rates	-	-	-
Maintenance expenses	1,712	-	-
Other assumptions [1)]	29,660	-	-

[1)] Other assumptions changes are the impact of product and 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.

17. 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 Gross of reinsurance ($000)	Change in life insurance contract liabilities Net of reinsurance ($000)	Change in shareholder profit after income tax and equity Gross of reinsurance ($000)	Change in shareholder profit after income tax and equity Net of reinsurance ($000)
Mortality	10 % increase in mortality rates	(1,767)	(1,767)	1,767	1,767
Annuitant mortality	50 % increase in the rate of mortality improvement	748	748	(748)	(748)
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	79	79	(79)	(79)

(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 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. This serves primarily to:

i. reduce the net liability on large individual risks
ii. obtain greater diversification of insurance risks
iii. 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+.

17. LIFE INSURANCE CONTRACTS (CONTINUED)

(h) Life insurance risk (continued)

Terms and conditions of life insurance contracts
The nature of the terms of the life insurance contracts written by AMP Life 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
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)	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.
Life annuity contracts	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.
Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)	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.	Benefits arising from the discretionary bonuses are based on the performance of a specified pool of contracts and the assets supporting these contracts.	Market earning rates on assets backing the liabilities, interest rates, lapses, expenses, and mortality.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. 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 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.

17. 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 2012	**23,000**	**17,000**	**561,000**	**601,000**
31 December 2011	20,000	36,000	512,000	568,000

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

	Consolidated and Parent	
	2012	2011
	$000	*$000*
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	**42,305**	41,523
- Profits (losses) arising from difference between actual and assumed experience	**(294)**	48,547
- Capitalised (losses) reversals	**(58)**	941
Profit related to life insurance and investment contract liabilities	**41,953**	91,011
Attributable to:		
- Life insurance contracts	**41,309**	90,129
- Investment contracts	**643**	882
Investment earnings on assets in excess of life insurance and investment contract liabilities	**26,401**	20,245

(b) Restrictions on assets in statutory fund

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

The Life Act requires the life insurance business of AMP Life to be conducted within life statutory funds.

AMP Life has three statutory funds. All of the business of the Branch is held in the No.1 statutory fund. The business includes whole of life, endowment, investment account, retail and group risk, investment linked and immediate annuities.

Investments held in the life statutory fund can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a 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 provided solvency, capital adequacy and other regulatory requirements are met. See further details about solvency and capital adequacy in Note 18(d).

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(c) Capital guarantees

	Consolidated and Parent	
	2012	2011
	$000	*$000*
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	**1,492,530**	1,498,174
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	**1,797**	1,922

(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 Prudential Standards. The 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 the No. 1 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 Life Act.

The Appointed Actuary of AMP Life has confirmed that the available assets of the No. 1 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 assets included and policies issued in the Branch financial statements represent only a segment of the No.1 statutory fund, and as such separate solvency reserves are not required to be maintained specifically for the Branch.

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(d) Solvency and capital adequacy (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 APRA Prudential 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 shown below are stated in Australian dollars and apply to the entire No 1 Statutory Fund.

		No 1 Statutory Fund 2012 AUD $m	No 1 Statutory Fund 2011 AUD $m
Solvency requirement			
Net minimum termination value (MTV)		**19,715**	19,260
Adjusted other liabilities		**2,378**	2,332
Solvency reserve	B	**2,518**	2,145
Total solvency requirement	A	**24,611**	23,737
Assets available for solvency			
Net assets		**1,824**	1,740
Liability for unvested policy owner benefits		**1,374**	1,267
Excess of net policy liabilities (including policyholder bonuses) over MTV		**697**	361
Total assets available for solvency	C	**3,895**	3,368
Solvency reserve %	(B/(A-B))*100	**11.4%**	9.9%
Coverage of solvency reserve	C/B	**1.5**	1.6

(e) Actuarial information

Mr Rocco Mangano (*Fellow of the Institute of Actuaries of Australia*), as the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the Financial Statements 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 which may be recovered or settled within 12 months after the reporting date

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately $242m (2011: $232m) of policy liabilities may be settled within 12 months from the reporting date.

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information

Under the Life Act, the life insurance business of AMP Life 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 2012 $000	Non Investment Linked 2012 $000	Elimination 2012 $000	Total Statutory Fund 2012 $000	Shareholder Fund 2012 $000	Total Parent 2012 $000
Income and expenses						
Life insurance premium and related revenue	-	220,309	-	220,309	-	220,309
Fee revenue	2,470	-	-	2,470	-	2,470
Other revenue	-	-		-		-
Investment gains and (losses)	15,414	274,424	-	289,838	-	289,838
Life insurance claims and related expenses	-	(208,451)	-	(208,451)	-	(208,451)
Operating expenses	(1,273)	(71,125)	-	(72,398)	-	(72,398)
Finance costs	(5)	(104)	-	(109)	-	(109)
Change in policyholder liabilities						
-Investment contracts	(13,934)	-	-	(13,934)	-	(13,934)
-Life insurance contracts	-	(103,865)	-	(103,865)	-	(103,865)
Profit before income tax	2,672	111,188	-	113,860	-	113,860
Income tax (expense) / credit	(2,029)	(43,478)	-	(45,507)	-	(45,507)
Net profit for the year	643	67,710	-	68,353	-	68,353

	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
Income and expenses						
Life insurance premium and related revenue	-	212,263	-	212,263	-	212,263
Fee revenue	3,026	-	-	3,026	-	3,026
Other revenue	-	(25)		(25)		(25)
Investment gains and (losses)	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 policyholder liabilities						
-Investment contracts	292	-	-	292	-	292
-Life insurance contracts	-	29,710	-	29,710	-	29,710
Profit before income tax	2,633	219,662	-	222,295	-	222,295
Income tax (expense) / credit	(1,751)	(109,288)	-	(111,039)	-	(111,039)
Net profit for the year	882	110,374	-	111,256	-	111,256

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(ii) Disaggregated Statement of financial position

	Investment Linked 2012 $000	Non Investment Linked 2012 $000	Elimination 2012 $000	Total Statutory Fund 2012 $000	Shareholder Fund 2012 $000	Total Parent 2012 $000
Assets						
Investments in financial assets	214,152	2,627,491	(29,291)	2,812,352	2,005	2,814,357
Other assets	(125,049)	140,226	98,106	113,283	(5)	113,278
Total assets of policyholders and the shareholder	89,103	2,767,717	68,815	2,925,635	2,000	2,927,635
Liabilities						
Life insurance contract liabilities	-	1,917,075	-	1,917,075	-	1,917,075
Investment contract liabilities	110,631	-	-	110,631	-	110,631
Other liabilities	(22,170)	312,109	68,815	358,754	-	358,754
Total liabilities of policyholders and the shareholder	88,461	2,229,184	68,815	2,386,460	-	2,386,460
Net assets	642	538,533	-	539,175	2,000	541,175
Equity						
Retained earnings	642	538,533	-	539,175	2,000	541,175
Total equity	642	538,533	-	539,175	2,000	541,175

	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
Assets						
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
Total assets of policyholders and the shareholder	90,312	2,595,922	(1,768)	2,684,466	2,000	2,686,466
Liabilities						
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
Total liabilities of policyholders and the shareholder	89,430	2,125,982	(1,768)	2,213,644	-	2,213,644
Net assets	882	469,940	-	470,822	2,000	472,822
Equity						
Retained earnings	882	469,940	-	470,822	2,000	472,822
Total equity	882	469,940	-	470,822	2,000	472,822

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(iii) Disaggregated movement in retained earnings

	Investment Linked 2012 $000	Non Investment Linked 2012 $000	Total Statutory Fund 2012 $000	Shareholder Fund 2012 $000	Total Parent 2012 $000
Opening retained earnings	882	469,940	470,822	2,000	472,822
Profit for the year	642	67,710	68,353	-	68,353
Transfer	(882)	882	-	-	-
Closing retained earnings	642	538,533	539,175	2,000	541,175

	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
Profit for the year	882	110,374	111,256	-	111,256
Closing retained earnings	882	469,940	470,822	2,000	472,822

	Consolidated and Parent 2012 $000	2011 $000
(h) Analysis of other life insurance and investment contract operating expenses		
Other life insurance and investment contract acquisition expenses		
- Commission	37	13
- Other expenses	122	-
Other life insurance and investment contract maintenance expenses		
- Commission	169	189
- Other expenses	544	776
Investment management expenses	480	574

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

AMP Life's financial 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. Below is a summary of the AMP group's financial risk management policies which may impact AMP Life.

Financial Risk Management

The AMP Limited Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and is operating effectively. This includes setting the financial risk appetite and approval of the AMP group Financial Risk Management Framework (FRM Framework), its sub-policies, the shareholder capital investment strategy, capital and financing plans.

The principal objective of AMP's financial risk management is to establish a robust structure for identifying, assessing, managing, quantifying, reporting and escalating financial risks. The FRM Framework is consistent with both the AMP group Risk Appetite Statement, which outlines AMP's appetite, to take certain risks in order to grow its profits and the AMP Enterprise Risk Management Policy which establishes the principles, requirements, roles and responsibilities for the management of all categories of risk across AMP.

The FRM Framework includes delegations, roles and responsibilities, escalations and reporting, as well as outlining AMP group's FRM objectives. 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 them.

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, AFS ALCO for AMP Life and NZ ALCO for the Branch. 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 the capital position to Group ALCO, the AMP Limited Audit Committee and the Board, monitoring compliance with the FRM Framework, and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the Board.

The Audit Committee ensures the existence of effective FRM policies and procedures, and is responsible for the oversight of the execution of the FRM Framework. The AMP Life Audit Committee is delegated responsibility for the elements specific to its businesses. Internal Audit reviews the design and operational effectiveness of the FRM Framework as part of its on-going audit cycle.

Operating entities are required to comply with the Board approved risk appetite and are also responsible for approving policyholder asset and liability strategies.

The Appointed Actuary provides oversight to the AMP Life Board, Audit Committee, Group ALCO, AFS ALCO and NZ ALCO as well as, externally to APRA, on the financial condition of the AMP Life. The Appointed Actuary is also responsible for giving advice to AMP Life on the distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. The 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 capital management activities within the AMP group, including the relationship with regulatory requirements on the regulated entities is provided in Note 20.

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

(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 AMP group 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 has equity market exposure in its businesses (for example through fees on Assets Under Management).

Financial risks arising in the AMP group include market risk (investment risk, interest rate risk, foreign exchange 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 of assets and liabilities 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 group arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property and interest bearing investments.

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 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 AMP group'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 the AMP group. Management of those risks is decentralised according to the activity. Details are as follows:

As discussed in Note 2(c), the AMP Life 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.

The interest rate risk of the AMP Life 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 the shareholder.

Management of various risks associated with investments undertaken by the life statutory fund 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.

19. 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 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.

	2012		2011	
Change in variables	**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*
+ 100 basis points	**(22,530)**	**(22,530)**	(9,182)	(9,182)
- 100 basis points	**12,729**	**12,729**	11,959	11,959

(ii) Currency risk

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

AMP group does not hedge the capital invested in overseas operations 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 in the Branch.

	2012		2011	
Change in variables	**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 % depreciation of NZD	**1,471**	**1,471**	1,765	1,765
10 % appreciation of NZD	**(1,463)**	**(1,463)**	(1,775)	(1,775)

19.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 group's profit after tax and equity from movements in equity prices. The Branch measures equity securities at fair value through profit or loss. Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

Equity price sensitivity analysis
The analysis demonstrates the impact of a 10 per cent movement in New Zealand 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 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 AMP group and the range of movements in equity markets for the periods.

	2012		2011	
Change in variables	**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	**935**	**935**	1,254	1,254
10 % increase in international equities	**1,710**	**1,710**	2,015	2,015
10 % decrease in New Zealand equities	**(924)**	**(924)**	(1,260)	(1,260)
10 % decrease in international equities	**(1,702)**	**(1,702)**	(2,024)	(2,024)

(c) Liquidity and refinancing risk

Liquidity risk is the risk that the AMP group 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 group 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 Limited Board.

In the current year no breaches of banking covenants have occurred (2011: nil). The carrying amount of the borrowings at 31 December 2012 was $nil (2011: $3.5m) - refer Note 16. The borrowings have been fully repaid at the reporting date but at no time did the financiers have legal recourse beyond the operating subsidiary borrower.

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.

19.RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Liquidity and refinancing risk (continued)

Maturity profiles of undiscounted financial liabilities: [1]

2012 - Consolidated	**Up to 1 year or no term**	**1 to 5 years**	**More than 5 years**	**Other [2]**	**Total**
	$000	*$000*	*$000*	*$000*	*$000*
Payables	60,172	897	-	1,650	62,719
Derivative financial liabilities	682	1,904	1,679	-	4,265
Investment contract liabilities[2]	-	-	-	110,631	110,631
Total undiscounted financial liabilities [3]	60,854	2,801	1,679	112,281	177,615

2011 - Consolidated	Up to 1 year or no term	1 to 5 years	More than 5 years	Other	Total
	$000	*$000*	*$000*	*$000*	*$000*
Payables	58,076	232	-	2,052	60,360
Borrowings	3,534	-	-	-	3,534
Derivative financial liabilities	1,926	8,105	3,597	-	13,628
Investment contract liabilities	-	-	-	113,324	113,324
Total undiscounted financial liabilities	63,536	8,337	3,597	115,376	190,846

2012 – Parent	**Up to 1 year or no term**	**1 to 5 years**	**More than 5 years**	**Other [2]**	**Total**
	$000	*$000*	*$000*	*$000*	*$000*
Payables	127,677	-	-	1,648	129,325
Derivative financial liabilities	-	-	1,073	-	1,073
Investment contract liabilities[2]	-	-	-	110,631	110,631
Total undiscounted financial liabilities [3]	127,677	-	1,073	112,279	241,029

2011 - Parent	Up to 1 year or no term	1 to 5 years	More than 5 years	Other	Total
	$000	*$000*	*$000*	*$000*	*$000*
Payables	64,440	18	-	1,877	66,335
Derivative financial liabilities	-	-	397	-	397
Investment contract liabilities	-	-	-	113,324	113,324
Total undiscounted financial liabilities	64,440	18	397	115,201	180,056

1) The table provides maturity analysis of the Branch's financial liabilities and non-linked investment contracts including term annuities.
2) Investment contract liabilities of $110.6m (2011: $113.3m) 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 out flow 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.

19.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 NZ ALCO.

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 on a Group basis, by aggregating risk from credit exposures taken in business units, as detailed below.

- *AMP Life* - Credit risk on the invested fixed income portfolios in AMP Life's statutory funds is managed by the AMP Capital Risk and Compliance Committee (AMP Capital 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 the Branch is reported to NZ 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 group's portfolio.

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

(ii) Exposure to credit risk

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

	2012 **$000**	2011 *$000*
AAA	**78,853**	47,420
AA	**896,029**	942,752
A	**172,862**	211,870
BBB	**54,919**	117,750
Below BBB	**410**	6,329
Unrated	**1,861**	1
Total financial assets measured at fair value through profit or loss with credit risk exposure managed by AMP Treasury[1]	**1,204,934**	1,326,122
Other assets [2]	**1,731,872**	1,432,446
Total assets	**2,936,806**	2,758,568

[1] Balance mainly comprises interest bearing securities and cash equivalents
The unrated securities mainly comprise amounts due under deferred settlements of disposals of investments in controlled entities during the year.
[2] Balance includes all other financial and non financial assets with no credit risk exposure

19.RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(d) Credit risk (continued)

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

	Past due but not impaired				
2012 - Consolidated	**Less than 30 days**	**31 to 60 days**	**61 – 90 days**	**More than 91 days**	**Total**
	$000	***$000***	***$000***	***$000***	***$000***
Other receivables – other entities	**484**	**136**	**105**	**1,656**	**2,381**
Reinsurance and other recoveries	**529**	**1,495**	**3,258**	**1,298**	**6,580**
Total [1]	**1,013**	**1,631**	**3,363**	**2,954**	**8,961**

	Past due but not impaired				
2011 - Consolidated	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	Total
	$000	*$000*	*$000*	*$000*	*$000*
Other receivables – other entities	861	261	102	1,151	2,375
Total [1]	861	261	102	1,151	2,375

	Past due but not impaired				
2012 - Parent	**Less than 30 days**	**31 to 60 days**	**61 – 90 days**	**More than 91 days**	**Total**
	$000	***$000***	***$000***	***$000***	***$000***
Reinsurance and other recoveries	**529**	**1,495**	**3,258**	**1,298**	**6,580**
Total [1]	**529**	**1,495**	**3,258**	**1,298**	**6,580**

	Past due but not impaired				
2011 - Parent	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	Total
	$000	*$000*	*$000*	*$000*	*$000*
Other receivables – other entities	352	291	-	11	654
Total [1]	352	291	-	11	654

[1] 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.

(i) Derivative transactions undertaken as part of life insurance operations
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.

(iv) Risk relating to derivative financial instruments
The market risk of derivatives is managed and controlled as an integral part of the financial risk of the AMP group The credit risk of derivatives is also managed in the context of the AMP group's overall credit risk policies.

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 group's own data, reflecting the AMP group'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:

2012 - Consolidated	**Level 1** *$000*	**Level 2** *$000*	**Level 3** *$000*	**Total fair value** *$000*
Assets				
Equity securities and listed managed investment schemes	10,484	-	-	10,484
Debt securities	-	949,888	-	949,888
Investment in unlisted managed investment schemes	-	1,329,695	2,918	1,332,613
Derivative financial assets	24,850	199,782	-	224,632
Total financial assets	35,334	2,479,365	2,918	2,517,617
Liabilities				
Derivative financial liabilities	533	3,732	-	4,265
Investment contract liabilities	-	11,598	99,033	110,631
Total financial liabilities	533	15,330	99,033	114,896

2011 - Consolidated	Level 1 *$000*	Level 2 *$000*	Level 3 *$000*	Total fair value *$000*
Assets				
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
Total financial assets	42,745	2,357,244	9,794	2,409,783
Liabilities				
Derivative financial liabilities	1,661	11,967	-	13,628
Investment contract liabilities	-	12,298	101,026	113,324
Total financial liabilities	1,661	24,265	101,026	126,952

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(f) Fair value measures (continued)

2012 - Parent	**Level 1** *$000*	**Level 2** *$000*	**Level 3** *$000*	**Total fair value** *$000*
Assets				
Equity securities and listed managed investment schemes	-	1,515,700	-	1,515,700
Debt securities	-	36,011	-	36,011
Investment in unlisted managed investment schemes	-	13,333	2,918	16,251
Derivative financial assets	-	173,244	-	173,244
Total financial assets	-	1,738,288	2,918	1,741,206
Liabilities				
Derivative financial liabilities	-	1,073	-	1,073
Investment contract liabilities	-	11,598	99,033	110,631
Total financial liabilities	-	12,671	99,033	111,704

2011 - Parent	Level 1 *$000*	Level 2 *$000*	Level 3 *$000*	Total fair value *$000*
Assets				
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
Total financial assets	-	1,527,827	2,876	1,530,703
Liabilities				
Derivative financial liabilities	-	397	-	397
Investment contract liabilities	-	12,298	101,026	113,324
Total financial liabilities	-	12,695	101,026	113,721

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:

2012 - 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*
Assets							
Equity securities and listed managed investment schemes	1,607	-	-	(1,607)	-	-	-
Debt securities	5,311	-	-	(5,311)	-	-	-
Investment in unlisted managed investment schemes	2,876	42	-	-	-	2,918	42
Total financial assets	9,794	42	-	(6,918)	-	2,918	42
Liabilities							
Investment contract liabilities	101,026	10,549	3,045	(15,587)	-	99,033	10,549
Total financial liabilities	101,026	10,549	3,045	(15,587)	-	99,033	10,549

19.RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(f) Fair value measures (continued)

2011 - Consolidated	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
Assets							
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)
Total financial assets	**14,349**	**(1,503)**	**-**	**(12,850)**	**9,798**	**9,794**	**(1,503)**
Liabilities							
Investment contract liabilities	113,761	(2,730)	3,464	(13,469)	-	101,026	(2,730)
Total financial liabilities	**113,761**	**(2,730)**	**3,464**	**(13,469)**	**-**	**101,026**	**(2,730)**

2012 - Parent	**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
Assets							
Investment in unlisted managed investment schemes	2,876	42	-	-	-	2,918	42
Total financial assets	**2,876**	**42**	**-**	**-**	**-**	**2,918**	**42**
Liabilities							
Investment contract liabilities	101,026	10,549	3,045	(15,587)	-	99,033	10,549
Total financial liabilities	**101,026**	**10,549**	**3,045**	**(15,587)**	**-**	**99,033**	**10,549**

19. 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 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*
Assets							
Investment in unlisted managed investment schemes	12,011	(2,359)	-	(6,776)	-	2,876	(2,359)
Total financial assets	12,011	(2,359)	-	(6,776)	-	2,876	(2,359)
Liabilities							
Investment contract liabilities	113,761	(2,730)	3,464	(13,469)	-	101,026	(2,730)
Total financial liabilities	113,761	(2,730)	3,464	(13,469)	-	101,026	(2,730)

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

	2012			**2011**		
		Effect of reasonably possible alternative assumptions			Effect of reasonably possible alternative assumptions	
Consolidated	**Carrying amount**	**(+)**	**(-)**	Carrying amount	(+)	(-)
	$000	***$000***	***$000***	*$000*	*$000*	*$000*
Assets						
Equity securities and listed managed investment schemes	-	-	-	1,607	85	(85)
Debt securities	-	-	-	5,311	1,036	(687)
Investments in unlisted managed investment schemes	**2,918**	**115**	**(115)**	2,876	95	-
Total financial assets	**2,918**	**115**	**(115)**	9,794	1,216	(772)

	2012			**2011**		
		Effect of reasonably possible alternative assumptions			Effect of reasonably possible alternative assumptions	
Parent	**Carrying amount**	**(+)**	**(-)**	Carrying amount	(+)	(-)
	$000	***$000***	***$000***	*$000*	*$000*	*$000*
Assets						
Investment in unlisted managed investment schemes	**6,874**	**115**	**(115)**	2,876	95	-
Total financial assets	**6,874**	**115**	**(115)**	2,876	95	-

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

19.RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(f) Fair value measures (continued)

The Branch recognises loans against policies with a carrying value of $53.6m (2011: $54.7m) on the amortised cost basis. These loans attract interest at a rate of 6.0 % p.a. (2011: 6.0 % 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.

20. CAPITAL MANAGEMENT

AMP Life 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 and approved by the Board.

AMP Life assesses the adequacy of its capital requirements against regulatory capital requirements. AMP Life Limited (New Zealand Branch) is a branch of AMP Life which is an operating entity within the AMP group and is an APRA regulated company.

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 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 Limited No.1 Statutory Fund – Solvency, capital adequacy and management capital requirements as specified under the Life Act and APRA Life Insurance Prudential Standards. From 1 January 2013, these will be replaced with revised APRA prudential standards.

AMP Life Limited 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 No. 1 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 target surplus policy for AMP Life has been revised following the introduction of revised life insurance APRA Prudential Standards, which take effect from 1 January 2013.

APRA has introduced revised Prudential Standards relating to minimum financial requirements of superannuation funds. These revised prudential standards will commence on 1 July 2013, with transitional arrangements applying over the three years following the commencement date.

21. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2012 $000	2011 $000	**2012 $000**	2011 $000
(a) Reconciliation of the net profit after income tax attributable to the shareholder to cash flows from operating activities				
Net profit after income tax	**71,694**	100,601	**68,353**	111,256
Depreciation, amortisation, impairment and loss on disposals	**3,823**	3,835	**-**	-
Other non-cash items	**549**	459	**-**	21
Net realised and unrealised gains and losses on investment assets	**(167,014)**	(150,455)	**(240,944)**	(226,912)
Loss on disposal of controlled entity	**13,175**	-	**-**	-
Loss on disposal of plant and equipment	**959**	-	**-**	-
Dividends and distributions reinvested	**(26,968)**	(19,919)	**(60)**	-
Defined benefit expense	**(2,328)**	(2,328)	**-**	-
Increase / (decrease) in life insurance contract liabilities	**98,663**	(31,504)	**98,663**	(31,504)
Decrease in investment contract liabilities	**(2,693)**	(15,040)	**(2,693)**	(15,040)
Decrease in income tax balances	**(2,851)**	64,060	**(523)**	70,992
(Increase) / decrease in other operating assets and liabilities	**(11,684)**	(20,380)	**54,664**	(21,140)
Cash flows from / (used in) operating activities	**(24,675)**	(70,671)	**(22,540)**	(112,327)

	Consolidated		Parent	
	2012 $000	2011 $000	**2012 $000**	2011 $000
(b) Reconciliation of cash and cash equivalents				
Comprises:				
Cash on hand	**39,542**	21,127	**21,205**	14,204
Cash on deposit	**141,893**	116,586	**14,135**	12,135
Balance at the end of the year	**181,435**	137,713	**35,340**	26,339

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

22. 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(aa), 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	
	2012	2011
	$000	*$000*
(a) Defined benefit income		
Current service costs	**(27)**	(18)
Interest cost	**(964)**	(1,246)
Expected return on plan assets	**1,225**	1,298
Contributions income	**101**	17
Total defined benefit income	**335**	51
(b) Amounts recognised in the Statement of comprehensive income		
Immediate recognition of loss	**(1,049)**	(7,127)
Total recognised via the Statement of comprehensive income	**(1,049)**	(7,127)
Cumulative amount of income recognised via Statement of comprehensive income at the start of the period	**(15,568)**	(10,449)
Cumulative amount of income recognised via Statement of comprehensive income at the end of the period	**(16,617)**	(17,576)
Actual return on plan assets	**2,501**	(467)
(c) Movement in defined benefit obligation		
Balance at the beginning of the period	**32,351**	30,421
Current service cost	**27**	18
Interest cost	**964**	1,246
Contributions by plan participants	**14**	15
Actuarial gains and losses	**2,421**	2,996
Benefits paid	**(2,338)**	(2,345)
Balance at the end of the period	**33,439**	32,351
(d) Movement in fair value of plan assets		
Balance at beginning of the period	**20,822**	22,047
Expected return on plan assets	**1,225**	1,298
Actuarial gains and losses	**1,171**	(1,781)
Contributions by the employer	**1,545**	1,588
Contributions by plan participants	**14**	15
Benefit paid	**(2,339)**	(2,345)
Balance at the end of the period	**22,438**	20,822
(e) Defined benefit deficit		
Present value of wholly funded defined benefit obligations	**(33,439)**	(32,351)
Less fair value of plan assets	**22,438**	20,822
Contributions tax	**(4,714)**	(5,719)
Net defined benefit deficit recognised in the Statement of financial position	**(15,715)**	(17,248)

22. DEFINED BENEFIT PLAN LIABILITY AND COMMITMENTS (CONTINUED)

	Consolidated	
	2012	2011
	$000	*$000*
(f) Movement in net defined benefit deficit		
Deficit at the beginning of the period	(17,248)	(12,500)
Plus total income recognised in income	335	51
Plus employer contributions	2,247	2,329
Less actuarial losses recognised in other comprehensive income	(1,049)	(7,128)
Deficit at the end of the period	(15,715)	(17,248)

(g) Historical analysis of defined benefit / (deficit) surplus	2012	2011	2010	2009
	$000	$000	*$000*	*$000*
Present value of wholly funded defined benefit obligations	33,439	32,351	30,422	32,006
Less fair value of plan assets	22,438	20,822	22,047	22,494
Net defined benefit (deficit)/surplus before contributions tax recognised in the Statement of financial position	(11,001)	(11,529)	(8,375)	(9,512)
Actuarial gains/(losses) arising on plan liabilities	(326)	516	361	1,189
Actuarial gains/(losses) arising on plan assets	(1,171)	1,781	(1,025)	(1,540)
Change in assumptions gain/(loss) – plan liabilities	2,747	3,429	259	(2,328)

Expected contributions for the financial year ending 31 December 2013 are $1,522,000. This expectation is based on the latest information from the external actuaries, Mercer (N.Z.) Limited in their report of 31 December 2012.

Fair Value of Plan Assets
The fair value of Plan assets includes no amounts relating to:
- any of the Employer's own financial instruments [1]
- 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:

	2012	2011
	%	%
Discount rate (net of tax)	2.60	3.00
Expected rate of return on assets (after tax and expenses)	6.00	6.00
Inflation increases	2.50	2.50
Future pension increases	1.90	1.88

The decrease in the liability totals $1.5m. The change in discount rate is driven by the reduction in bond yields from 3.0% to 2.6%.

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

[1] More than 90% of the Plan assets are invested in AMP managed investment funds.

22. 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 $11.0m (2011: $11.5m) 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.

	2012	2011
The percentage invested in each asset class at the balance date:		
Equity	55 %	59 %
Fixed income	26 %	23 %
Property	8 %	11 %
Cash	11 %	7 %

23. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	% Holdings 2012	2011
Allmarg Corporation Limited [5]	New Zealand	Ordinary, Preference	100.0	100.0
AMP Capital Investments No. 2 Limited [4]	New Zealand	Ordinary A & B, Preference	99.9	99.9
Donaghys Limited [2]	New Zealand	Ordinary	-	58.0
Donaghys Australia Pty Limited	Australia	Ordinary	-	58.0
Donaghys Industries Limited	New Zealand	Ordinary	-	58.0
Donaghys International Limited	New Zealand	Ordinary	-	58.0
Donaghys Pty Limited	Australia	Ordinary	-	58.0
AMP Capital Investments No. 8 Limited [4]	New Zealand	Ordinary A & B, Preference	99.9	99.9
AMP Capital Investments No. 11 Limited [3,4]	New Zealand	Ordinary A & B	-	80.0
AMP Capital Investments No. 14 Limited [4]	New Zealand	Ordinary A & B	99.9	99.9
Kiwi Kat Limited	New Zealand	Ordinary	70.0	70.0
AMP Life (NZ) Investments Holdings Limited [4]	New Zealand	Ordinary	100.0	100.0
AMP Life (NZ) Investments Limited [4]	New Zealand	Ordinary	100.0	100.0
AMP Services (NZ) Limited [5]	New Zealand	Ordinary	100.0	100.0
AMP/ERGO Mortgage and Savings Limited [5]	New Zealand	Ordinary	100.0	100.0
Roost 2007 Limited [1,5]	New Zealand	Ordinary	-	100.0

[1] Roost 2007 Limited was amalgamated into AMP Services (NZ) Limited on 31 December 2012.
[2] AMP Capital Investments No.2 Limited disposed of its investments in the Donaghys group of companies on 30 June 2012.
[3] AMP Capital Investments No.11 Limited was liquidated on 7 December 2012.
[4] Controlled entities of AMP Life Limited (New Zealand Branch) No. 1 Statutory Fund
[5] Controlled entities of AMP Life Limited (New Zealand Branch) Shareholder Fund

24. ASSOCIATES

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

NAME OF UNIT TRUSTS AND OTHER ENTITIES	PRINCIPAL ACTIVITY	Ownership interest 2012 %	Ownership interest 2011 %	Carrying amount 2012 $000	Carrying amount 2011 $000
Consolidated					
AMP Pencarrow Private Capital Joint Venture Fund	Investment vehicle	34	34	2,918	2,876
AMP Capital NZ Shares Index Fund	Passive Equity Investment	38	-	92,962	-
AMP Capital NZ Shares Fund	Equity Investment	23	43	94,069	125,875
AMP Capital Strategic NZ Shares Fund	Equity Investment	28	33	152,862	166,659
AMP Capital Global Shares Fund	Passive International Equities	27	27	40,267	38,602
AMP Investments World Index Fund	Passive International Equities	-	45	-	67,657
AMP Capital Property Portfolio	Property Investment	39	38	306,835	301,573
Wholesale Global Share Index Fund	Equity Investment	14	-	68,437	-
Total investments held by the life statutory fund in associated unit trusts and other entities				758,350	703,242

[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(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.

25. OPERATING LEASE COMMITMENTS

	Note	Consolidated 2012 $000	Consolidated 2011 $000	Parent 2012 $000	Parent 2011 $000
Operating lease commitments (non-cancellable)					
Due within one year		3,293	3,171	-	-
Due within one year to five years		12,118	8,523	-	-
Due later than five years		5,133	4,450	-	-
Total operating lease commitments		20,544	16,144	-	-

The above leases are primarily in respect of properties from which the Branch and its controlled entities operate.

26. 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.

The Branch has an investment in an associated entity for which it may have a commitment to make further capital contributions if called. The amount that may be called at any time is $4.2m (2011: $4.2m).

27. RELATED PARTY DISCLOSURES

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 details

The following individuals were the key management personnel of AMP Life Limited (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:

Name	Position		
Craig Dunn	Director, Chief Executive Officer - AMP Limited		
Catherine Brenner	Non-Executive Director		
Anthony Coleman	Non-Executive Director		
Craig Meller	Managing Director - AMP Financial Services		
John Palmer	Non-Executive Director		
Peter Shergold	Non-Executive Director		
Geoffrey Roberts	Non-Executive Director	Resigned:	31 March 2012
Diana Eilert	Non-Executive Director	Appointed:	10 August 2012

The following individuals were key management personnel of the Group:

Name	Position
Anthony George Regan	Managing Director
James Georgeson	Chief Financial Officer
Therese Singleton	Executive Legal Counsel
Gregory Bird	General Manager, Actuarial, Strategy and Risk

(b) Remuneration of key management personnel

The following table provides aggregate details of the compensation of key management personnel of AMP Life Limited (in Australian dollars).

	Short term benefits	Post employment benefits	Share-based payments	Total
2012	**5,613,295**	**103,037**	**3,376,000**	**9,092,332**
2011	5,396,426	85,318	3,341,000	8,822,744

The fees paid to non-executive directors of AMP Life are the combined fees for AMP Life and the National Mutual Life Association of Australasia Limited.

27.RELATED PARTY DISCLOSURES (CONTINUED)

(b) Remuneration of key management personnel (continued)

Remuneration details for the key management personnel of the Group are as follows (in thousands of New Zealand dollars):

	Short term benefits	Post employment benefits	Other	Total
2012	**2,191**	**183**	**63**	**2,437**
2011	1,909	140	27	2,076

(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 2011 and 31 December 2012 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. 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). 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 23 and 24.

In addition the parent received a dividend from AMP Capital Investments No.14 Limited in the current year.

In the previous year, 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. No tax losses have been acquired in the current year.

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	
Fellow subsidiaries of AMP		**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**
AMP Services (NZ) Limited	**2012**	**-**	**46,215**	**-**	**2,194**
	2011	-	48,615	-	3,099
AMP Capital Investors (New Zealand) Limited	**2012**	**-**	**387**	**-**	**-**
	2011	-	415	-	-
AMP Capital Investors Limited	**2012**	**-**	**1,117**	**-**	**828**
	2011	-	525	-	984
AMP / ERGO Mortgage and Savings Limited	**2012**	**-**	**-**	**1,752**	**-**
	2011	-	-	525	-
AMP Life (NZ) Investments Holdings Limited	**2012**	**-**	**-**	**1,071,152**	**-**
	2011	-	-	1,071,152	-
AMP Life (NZ) Investments Limited	**2012**	**-**	**-**	**-**	**90,746**
	2011	66	-	-	32,075
AMP Capital Investments No.14 Limited	**2012**	**1,019**	**-**	**-**	**-**
	2011	-	-	-	-

27.RELATED PARTY DISCLOSURES (CONTINUED)

(c) Transactions with key related parties (continued)

(ii) Consolidated

The Branch provides administrative services to AMP Wealth Management New Zealand Limited, The National Mutual Life Association of Australasia and Spicers Portfolio Management Limited. The Branch also receives administrative services from AMP Services Limited (Australia) and investment services from AMP Capital Investors Limited and AMP Capital Investors (New Zealand) Limited.

In the previous year, 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. No tax losses were acquired in the current year.

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	
Fellow subsidiaries of AMP		**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**
AMP Services Limited (Australia)	**2012**	**14,509**	**27,230**	**-**	**5,075**
	2011	-	25,423	-	3,108
AMP Capital Investors (New Zealand) Limited	**2012**	**195**	**7,864**	**-**	**2,830**
	2011	228	7,549	-	1,137
AMP Capital Investors Limited	**2012**	**-**	**4,828**	**-**	**842**
	2011	-	4,035	-	1,002
AMP Wealth Management New Zealand Limited (formerly AXA Wealth Management New Zealand Limited)	**2012**	**17,668**	**-**	**292**	**-**
	2011	-	-	-	-
AXA Asia Pacific Holdings Limited	**2012**	**-**	**2,000**	**1,951**	**-**
	2011	-	-	-	-
The National Mutual Life Association of Australasia Limited (NMLA) – New Zealand Branch	**2012**	**38,343**	**-**	**20,860**	**-**
	2011	-	-	-	-
Spicers Portfolio Management Limited	**2012**	**8,064**	**-**	**1,836**	**-**
	2011	-	-	-	-

28. AUDITOR'S REMUNERATION

Amounts paid to the Auditor of the Branch for:

	Consolidated		Parent	
	2012	2011	**2012**	2011
	$000	*$000*	***$000***	*$000*
Audit of the financial statements of the Branch and controlled entities	**574**	455	**304**	264
Other services	**183**	255	**-**	272

The Branch has paid audit fees on behalf of other fellow subsidiaries within Group in 2012.

29. EVENTS OCCURING 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 Branch, the results of its operations or its state of affairs, which is not already reflected in this report, other than the following:

- From 1 January 2013, revised life insurance APRA Prudential Standards relating to capital adequacy apply to AMP Life. Separate solvency reserves are not required to be maintained specifically for the Branch. As such an analysis has been performed over AMP Life Statutory Fund No. 1 ("SF1") to determine the impact of the new Prudential Standards. As at 31 December 2012, AMP Life SF1's capital adequacy multiple for its would have been 1.6 had these revised requirements applied (the capital adequacy multiple is a coverage ratio that expresses the total capital base divided by the prescribed capital amount). The equivalent multiple under the current standards at 31 December 2012 is 1.3. As at 1 January 2013, the total capital base of AMP Life SF1 exceeds its prescribed capital amount under these revised standards

ERNST & YOUNG

Chartered Accountants

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 65, which comprise the statement of financial position of the New Zealand branch of AMP Life Limited and group as at 31 December 2012, and the income statement, 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, as a body, 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 as a body, 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.

Ernst & Young provided assurance-related services to the New Zealand branch of AMP Life Limited and group during the year. We have no other relationship with, or interest in the New Zealand branch of AMP Life Limited and group.

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 65:

- 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 2012 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.

Ernst & Young

3 May 2013
Auckland

Appointed Actuary's Report

To the Directors of AMP Life Limited ("AMP Life")

This report has been prepared for AMP Life in accordance with Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").

In terms of Section 77(1) of the Act, I have reviewed the actuarial information contained in, or used in the preparation of the Financial Statements for AMP Life (New Zealand Branch) for the year ended 31 December 2012. ("the Financial Statements")

For the purposes of this report, "actuarial information" is as defined in Section 77(4) of the Act, together with paragraph 4.1.1 of the Attachment to the Section 59 "Exemption from Compliance with Solvency Standard" granted to AMP Life by the Reserve Bank of New Zealand under the Act.

I certify that in my opinion**:**

a) The value of policy liabilities of AMP Life and the solvency of AMP Life have been determined using methods and assumptions consistent with the actuarial prudential standards issued by the Australian Prudential Regulation Authority ("APRA").

b) The allocation and distribution of the profits of Statutory Fund No 1 of AMP Life have been made in accordance with Divisions 5 and 6 of Part 4 of the Australian Life Insurance Act 1995 (Life Act) and the Constitution of AMP Life.

c) Proper records have been kept by AMP Life from which its policy liabilities and solvency have been able to be properly determined.

d) The apportionment of income and outgo used in preparing the AMP Life accounts at 31 December 2012, as required under sections 78 and 79 of the Life Act, is appropriate.

e) I have obtained all of the information and explanations that I require from AMP Life.

In addition, I certify that in my opinion, and from an actuarial perspective:

f) The actuarial information contained in the Financial Statements has been appropriately included in those statements.

g) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

h) AMP Life has fully complied with the APRA solvency standard and capital adequacy standard throughout the year ended 31 December 2012 in relation to Statutory Fund No 1. Note that the APRA solvency standard is the applicable standard that applies under the Section 59 exemption granted by the Reserve Bank of New Zealand.

Other than my relationship as Appointed Actuary of AMP Life Limited, I am an employee of the AMP Group, of which AMP Life forms part, and a member of the AMP Employees' Superannuation Plan. I hold shares and options in AMP Limited, the ultimate holding company of AMP Life. I am a customer of AMP Bank Limited, which is also part of the AMP Group.

This report is provided solely in my capacity as the AMP Life Limited Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, AMP Life Limited and its directors and shareholders.

RMangano

Rocco Mangano FIAA
Appointed Actuary, AMP Life Limited
24 April 2013

AMP

AMP Life Limited Statutory Fund No. 1

ABN 84 079 300 379

Financial Report for the year ended 31 December 2012

AMP LIFE LIMITED
STATUTORY FUND NO.1

ABN 84 079 300 379

FINANCIAL REPORT
31 DECEMBER 2012

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AMP Life Limited Statutory Fund No.1 Financial Report

Statement of comprehensive income

for the year ended 31 December 2012

	Note	Consolidated 2012 $m	Consolidated 2011 $m	Parent 2012 $m	Parent 2011 $m
Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests[1]					
Life insurance premium and related revenue	14(a)	1,204	1,140	1,204	1,140
Fee and other revenue	3(a)	60	54	51	44
Investment gains and (losses)	3(b)	2,070	1,689	2,070	1,598
Life insurance claims and related expenses	14(b)	(1,263)	(1,228)	(1,263)	(1,228)
Operating expenses	4(a)	(653)	(685)	(629)	(628)
Finance costs	4(b)	(34)	(84)	(32)	(65)
Change in policyholder liabilities					
- investment contracts		(194)	(179)	(194)	(179)
- life insurance contracts	14(e)	(557)	82	(557)	82
Movement in external unitholders' liabilities		17	(25)	-	-
Profit for the year before income tax		650	764	650	764
Income tax expense	5(a)	(320)	(327)	(320)	(327)
Profit for the year		330	437	330	437
Other comprehensive income recognised in reserves					
Exchange differences on translation of foreign operations					
- exchange gains/(losses)		16	(1)	16	(1)
		16	(1)	16	(1)
Total comprehensive income for the year		346	436	346	436
Total comprehensive loss attributable to non-controlling interests		-	-	-	-
Total comprehensive income for the year		346	436	346	436

Footnote:

(1) Income and expenses include amounts attributable to the shareholders' interests and policyholders' interests in the life statutory fund,external unitholders' interest and non-controlling interests. Amounts included in respect of the life statutory fund 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.

Statement of financial position

as at 31 December 2012

		Consolidated		Parent	
		2012	2011	2012	2011
	Note	$m	$m	$m	$m
Assets					
Cash and cash equivalents		3,945	3,417	3,712	3,213
Receivables	6	1,040	882	726	874
Intercompany tax receivable		20	3	20	3
Other assets	7	3	16	1	1
Investments in financial assets	8(b)	20,998	21,320	21,248	20,565
Investment property	9	579	1,357	132	130
Property, plant and equipment	10	26	25	23	22
Deferred tax assets	5(c)	62	67	62	67
Total assets of policyholders, shareholder, external unitholders and non-controlling interests		**26,673**	**27,087**	**25,924**	**24,875**
Liabilities					
Payables	11	742	450	513	478
Intercompany tax payable		122	173	122	172
Provisions	12	7	5	1	1
Other financial liabilities	8(c)	707	1,194	663	725
Other liabilities		-	3	-	-
Borrowings	13	303	513	384	388
Deferred tax liabilities	5(d)	511	386	511	386
Investment contract liabilities		3,962	3,640	3,962	3,640
Life insurance contract liabilities	14(e)	17,944	17,345	17,944	17,345
External unitholders' liabilities		539	1,621	-	-
Total liabilities of policyholders, shareholder, external unitholders and non-controlling interests		**24,837**	**25,330**	**24,100**	**23,135**
Net assets of shareholder and non-controlling interests		**1,836**	**1,757**	**1,824**	**1,740**
Equity (1)					
Contributed equity		303	303	303	303
Reserves		(18)	(34)	(18)	(34)
Retained earnings		1,539	1,471	1,539	1,471
Total equity attributable to the shareholder of AMP Life Limited		**1,824**	**1,740**	**1,824**	**1,740**
Non-controlling interests		12	17	-	-
Total equity of the shareholder of AMP Life Limited and non-controlling interests		**1,836**	**1,757**	**1,824**	**1,740**

Footnote:

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

For and on behalf of the Board who authorised these financial statements for issue on 3 May 2013:

Director

Director

AMP Life Limited Statutory Fund No.1 Financial Report

Statement of changes in equity

for the year ended 31 December 2012

Consolidated

	Equity attributable to shareholder of AMP Life Limited					
	Contributed equity $m	Foreign currency translation reserve $m	Retained earnings $m	Total shareholder equity $m	Non-controlling interest $m	Total equity $m
31 December 2012						
Balance at the beginning of the year	303	(34)	1,471	1,740	17	1,757
Profit for the year	-	-	330	330	-	330
Other comprehensive income	-	16	-	16	-	16
Total comprehensive income	-	16	330	346	-	346
Transfer to AMP Life Limited Shareholder Fund	-	-	(262)	(262)	-	(262)
Non-controlling interest on sales and acquisitions	-	-	-	-	(5)	(5)
Balance at the end of the year	**303**	**(18)**	**1,539**	**1,824**	**12**	**1,836**
31 December 2011						
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)
Balance at the end of the year	**303**	**(34)**	**1,471**	**1,740**	**17**	**1,757**

Parent

	Contributed equity $m	Foreign currency translation reserve $m	Retained earnings $m	Total shareholder equity $m
31 December 2012				
Balance at the beginning of the year	303	(34)	1,471	1,740
Profit for the year	-	-	330	330
Other comprehensive income	-	16	-	16
Total comprehensive income	-	16	330	346
Transfer to AMP Life Limited Shareholder Fund	-	-	(262)	(262)
Balance at the end of the year	**303**	**(18)**	**1,539**	**1,824**
31 December 2011				
Balance at the beginning of the period	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)
Balance at the end of the year	303	(34)	1,471	1,740

Statement of cash flows

for the year ended 31 December 2012

		Consolidated		Parent	
		2012	2011	2012	2011
	Note	$m	$m	$m	$m
Cash flows from operating activities					
Cash receipts in the course of operations		2,202	2,386	2,228	2,289
Interest and other items of a similar nature received		719	814	677	694
Dividends and distributions received		375	520	255	309
Cash payments in the course of operations		(2,443)	(3,003)	(2,690)	(2,899)
Finance costs		(37)	(84)	(33)	(65)
Income tax paid		(259)	(233)	(257)	(233)
Cash flows from (used in) operating activities	*18(a)*	**557**	**400**	**180**	**95**
Cash flows from investing activities					
Net proceeds from sale of/(payments to acquire):					
- investments in financial assets		10	(1,828)	(351)	(632)
- investment properties, plant and equipment		787	(23)	(2)	(9)
Net cash acquired / (disposal of) in business combinations		(1,297)	897	-	-
Cash flows from / (used in) investing activities		**(500)**	**(954)**	**(353)**	**(641)**
Cash flows from financing activities					
Net repayment of borrowings		(203)	(19)	2	(11)
Net movement in deposits from customers		(6)	-	(6)	-
Cash flows used in financing activities		**(209)**	**(19)**	**(4)**	**(11)**
Net increase in cash and cash equivalents		(152)	(573)	(177)	(556)
Cash and cash equivalents at the beginning of the year		4,963	5,536	4,759	5,315
Effect of exchange rate changes on cash and cash equivalents		5	-	1	-
Cash and cash equivalents at the end of the year	*18(b)*	**4,816**	**4,963**	**4,583**	**4,759**

Footnote:
(1) 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 statutory funds, largely reflecting policyholder investment decisions during the period.

Statement of cash flows

for the year ended 31 December 2012

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AMP Life Limited Statutory Fund No.1 ('AMP Life SF1' or 'the parent') is one of three statutory funds which together with a shareholder's fund comprise 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 2012 were authorised by the directors of AMP Life Limited on 3 May 2013 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 and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). 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

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. Where necessary, comparative information has been reclassified to be consistent with current period disclosure.The Financial Report complies with International Financial Reporting Standards issued by the International Accounting Standards Boards.

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 shareholder's 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 bear 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 12 months of the reporting date are not always known, estimates 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 policy

Since 1 January 2012, AMP Life SF1 has adopted all Australian Accounting Standards which have become mandatory for adoption including:

- AASB 2010-8 *Income taxes (amendment) – Deferred tax: Recovery of Underlying Assets*
- AASB 2010-6 *Amendment to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- AASB 1054 *Australian Additional Disclosures*

Adoption of these standards has not had any material effect on the financial position or performance of AMP Life SF1.

Australian Accounting Standards issued but not yet effective

A number of new accounting standards and amendments have been issued but are 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:

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, 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. It is expected that the adoption of these standards will result in additional entities being consolidated into AMP Life SF1, however, the financial impact on AMP Life SF1 of adopting these standards has not yet been quantified.
- AASB 13 *Fair Value Measurement*. This standard centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards and removes some minor inconsistencies that previously existed between the guidance for determining fair value in these 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 is not expected to be material.
- 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 Statement of comprehensive income 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.

Notes to the financial statements

for the year ended 31 December 2012

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

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*. This standard amends the required disclosures in AASB 7 *Financial Instruments: Disclosures* to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. These amendments are mandatory for adoption by AMP Life SF1 in the year ending 31 December 2013. These changes are not expected to have a financial impact on AMP Life SF1.
- AASB 2012 – 3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*. These amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of AASB 132 *Financial Instruments: Presentation* offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous. These amendments are mandatory for adoption by AMP Life SF1 in the year ending 31 December 2014. These changes are not expected to have a financial impact on AMP Life SF1.
- AASB 9 *Financial Instruments*. This standard makes significant changes to the way 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. In subsequent phases, the AASB will address hedge accounting and impairment of financial assets. AASB 9 is mandatory for adoption by AMP Life SF1 in the year ending 31 December 2015. The financial impact to AMP Life SF1 of adopting AASB 9 has not yet been quantified.

Change in presentation of the Statement of cash flows
The 2011 comparatives in the Statement of cash flows has been revised to treat reinvested distributions as non-cash transactions and to separately disclose Net cash acquired / (disposed of) in business combination businesses within Cash flows from investing activities. Previously, reinvested distributions had been included in the Statement of cash flows on a gross basis and Net cash acquired / (disposed of) in business combinations were included in in cash receipts/payments in the course of operations in Cash flows from operating activities. These changes have resulted in:

Parent (2011 figures)
- an increase in Cash receipts in the course of operations of $693m;
- a decrease in Dividends and distributions received of $315m;
- an increase in Cash payments in the course of operations of $693m;
- a decrease in Cash flows from operating activities of $315m;
- a decrease in Net payments to acquire investments in financial assets of $315m; and
- a decrease in Cash flows used in investing activities of $315m.

Consolidated (2011 figures)
- an increase in Cash receipts in the course of operations of $697m;
- a decrease in Dividends and distributions received of $256m;
- an increase in Cash payments in the course of operations of $1,590m;
- a decrease in Cash flows from operating activities of $1,149m;
- an decrease in Net payments to acquire investments in financial assets of $252m;
- an increase in Net cash acquired in business combinations of $897m; and
- a decrease in Cash flows used in investing activities of $1,149m.

(b) Principles of consolidation

The 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 majority of AMP Life SF1's investments are held through controlling interests in a number of unit trusts and companies.

The financial information for controlled entities is prepared for the same reporting date 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 separately on the Statement of financial position. In the Statement of comprehensive income, 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.

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

Consolidation impact of investments of AMP Life
AMP Life conducts wealth-management business through separate life statutory funds, including AMP Life SF1. Income, expenses, assets and liabilities attributable to policyholders within the life statutory funds are consolidated into the AMP Life SF1 financial statements.

Notes to the financial statements

for the year ended 31 December 2012

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

The majority of the AMP Life SF1's investments are held through controlling interests in a number of unit trusts and companies. These investment assets are held on behalf of policyholders and AMP Life SF1 recognise a liability to the policyholders valued as described in Note 1(q) 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 shareholder of AMP Life Limited.

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

(c) 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 SF1 are investment contracts and life insurance contracts.

For the purpose 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 SF1receives 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 Australian 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 known as discretionary participating contracts, that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of AMP Life SF1.

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

Notes to the financial statements

for the year ended 31 December 2012

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 Statement of comprehensive income in the period in which they arise.

Subsequent to initial recognition, the 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 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 schemes 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 AMP Life SF1 in controlled entities (excluding unit trusts) are measured at cost less any accumulated impairment losses. Investments in controlled entities by AMP Life SF1 that back investment contract and life insurance contract liabilities are treated as financial assets and are valued in the same manner as equity securities described above.

(g) Associates

Associated entities are defined as those entities over which AMP Life SF1 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 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 associates held to back life insurance or life investment contracts 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 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 is set out in Note 9.

(i) Property, plant and equipment

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

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 SF1and the cost of the item can be reliably measured.

Notes to the financial statements

for the year ended 31 December 2012

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

(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 measured at fair value through profit or loss are not subject to impairment testing. Other assets such as property, plant and equipment and intangible assets including goodwill are subject to impairment testing.

Intangible assets that have an indefinite useful life, such as goodwill, are not subject to amortisation but are tested at least annually for impairment. Other 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) 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 entities 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, and
- 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. 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, and
- the impact of changes in the amounts of deferred tax assets and liabilities arising from changes in tax rates or in the manner in which these balances are expected to be realised.

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

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

Income tax for investment contracts and life insurance contracts business

The income tax expense recognised in the Statement of comprehensive income arising in AMP Life SF1 reflects tax imposed on the shareholder as well as policyholders.

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

Arrangements made with some superannuation funds result in AMP Life SF1 making payments to the relevant tax authorities 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.

Notes to the financial statements

for the year ended 31 December 2012

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

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 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 relevant 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 payable approximates fair value.

(m) 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 SF1expects 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. 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 finance costs.

(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 and movements in fair value are recognised in the Statement of comprehensive income.

(o) Derivative financial assets and derivative financial liabilities

AMP Life SF1is exposed to changes in interest and foreign exchange rates. To mitigate the risks arising from these exposures, AMP Life SF1uses 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 exclusive of any transactions costs on the date on which a derivative contract is entered into and are subsequently remeasured to 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. Changes in the fair value of derivative financial instruments are recognised in the Statement of comprehensive income in the period in which they arise.

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 for financial assets 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 SF1becomes 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.

Notes to the financial statements

for the year ended 31 December 2012

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

(q) 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 planned release of this margin is included in the movement in life insurance contract liabilities recognised in the Statement of comprehensive income.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected using best-estimate assumptions about the future. The liability is calculated as the net present value of these projected cash flows. When the benefits under a life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is based on the zero coupon government bond rate and a liquidity margin, which depends 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 the shareholder and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995* (the 'Life Act').

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to the shareholder 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 the shareholder.

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

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

(ii) Other MoS profits arising from discretionary participating business are allocated 80 per cent to policyholders and 20 per cent to the shareholder, with the following exceptions:
- the profit arising from New Zealand corporate superannuation business is apportioned such that the shareholder is allocated 15 per cent of the profit allocated to policyholders,
- the profit arising in respect of Preservation Superannuation Account business is allocated 92.5 per cent to policyholders and 7.5 per cent to the shareholder, and
- additional tax on taxable income to the shareholder in respect of Australian superannuation business is allocated to the shareholder only.

(iii) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in the statutory funds (excluding retained earnings dealt with in (i) above) are allocated to the shareholder.

Allocation of expenses within the statutory funds

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

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard for the objective in incurring that expense and the outcome achieved. The apportionment basis has been made in accordance with Australian Prudential Regulation Authority (APRA) Prudential 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 statutory funds are classified as operating expenses. See Note 1(y).

(r) Investment contract liabilities

An investment contract consists 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 accounting standards prevent those assets from being measured at fair value.

Notes to the financial statements

for the year ended 31 December 2012

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

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 fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

(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 company 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.

Translation of foreign operation

Where the functional currency of a controlled entity is not the presentational 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, and
- 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 relationg 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 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 amounts 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 amount 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 SF1are recognised as revenue when that act has been completed.

Notes to the financial statements

for the year ended 31 December 2012

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

(w) Investment gains or losses

Dividend and interest income are recognised in the Statement of comprehensive income on an accruals basis when AMP Life SF1 obtains control of the right to receive the revenue.

Net realised and unrealised gains and losses represent the change in value between the previously reported value and the amount received on sale of the asset as well as 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).

(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 2012

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) Consolidation

Entities are included within the consolidated financial statements of AMP Life SF1 where AMP Life SF1 has control of these entities, being the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Judgement is applied by management in assessing whether control exists, and in particular whether the rights held by AMP Life SF1 amount to being the power to govern the financial and operating policies of those entities and whether AMP Life SF1 is able to use such power to obtain benefits from the activities of the entities.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(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 Board of AMP Life SF1 is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary. Further detail on the determination of insurance contract liabilities is set out in Note 14.

(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 the fair value of backing assets, and does 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 2012

3. REVENUE AND INVESTMENT INCOME

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Fee and other revenue				
Investment management fees				
- related entities	10	6	10	7
- other entities	36	36	37	37
Other revenue[1]	14	12	4	-
Total fee and other revenue	**60**	**54**	**51**	**44**

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(b) Investment gains and (losses)				
Interest[2]				
- related entities	156	137	157	138
- other entities	562	684	519	585
Dividends and distributions				
- related entities	231	252	248	315
- associated entities	69	70	62	60
- other entities	323	443	193	274
Rental income				
- other entities	51	114	12	11
Net realised and unrealised gains and losses[3]	658	(20)	859	210
Other investment income	20	9	20	5
Total investment gains and (losses)	**2,070**	**1,689**	**2,070**	**1,598**

Footnote:

(1) 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 group.

(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.

Notes to the financial statements

for the year ended 31 December 2012

4. EXPENSES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Operating expenses				
Commission expense	152	154	152	154
Investment management expenses				
- related entities	54	71	50	57
- other entities	10	11	4	5
Fee and commission expenses[1]	**216**	**236**	**206**	**216**
Depreciation	9	9	9	9
Direct property expenses [2]	15	31	4	4
Service fee expense - related parties	369	361	369	361
Other expenses	44	48	41	38
Other operating expenses [3]	**437**	**449**	**423**	**412**
Total operating expenses	**653**	**685**	**629**	**628**

	Consolidated 2012 $m	Consolidated 2011 $m	Parent 2012 $m	Parent 2011 $m
(b) Finance costs				
Interest expense on borrowings	28	74	27	54
Other finance costs	6	10	5	11
Total finance costs	**34**	**84**	**32**	**65**

Footnote:

(1) 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.

(2) Direct property expenses relate to investment properties which generate rental income.

(3) 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 2012

5. INCOME TAX

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Analysis of income tax expense				
Current tax expense	(210)	(279)	(210)	(279)
Decrease in deferred tax assets	(2)	(8)	(2)	(8)
Increase in deferred tax liabilities	(114)	(39)	(114)	(39)
Over (under) provided in previous years including amounts attributable to policyholders	6	-	6	-
Effect of change in overseas tax rate	-	(1)	-	(1)
Income tax expense	**(320)**	**(327)**	**(320)**	**(327)**

(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 the shareholder as well as income tax attributable to policyholders. In respect of income tax expense attributable to the shareholder, the tax rate which applies is 30 per cent (2011: 30 per cent) in Australia and 28 per cent (2011: 28 per cent) in New Zealand.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15 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 (2011: 28 per cent).

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Profit before income	650	764	650	764
to policyholders liabilities in determining profit before income tax	(182)	(140)	(182)	(140)
Profit before income tax excluding policyholder tax	**468**	**624**	**468**	**624**
Prima facie tax at the rate of 30 per cent	(140)	(187)	(140)	(187)
Tax effect of differences between recognition of Income statement items for accounting and those deductible/assessable in calculating taxable income:				
Shareholder impact of par-business tax treatment	1	21	1	21
Non-deductible / assessable items	3	(3)	3	(3)
Non-Taxable income	5	8	5	-
Under / (over) provision in previous years after excluding amount attributable to policyholders	-	1	-	1
Tax offsets and credits	4	4	4	4
Difference in overseas tax rate	1	3	1	2
Other	(12)	(34)	(12)	(25)
Income tax expense attributable to shareholders	**(138)**	**(187)**	**(138)**	**(187)**
Income tax expense attributable to policyholders	(182)	(140)	(182)	(140)
Tax expense per Statement of comprehensive income	**(320)**	**(327)**	**(320)**	**(327)**
(c) Analysis of deferred tax asset				
- Losses available for offset against future taxable income	13	15	13	15
- Other	49	52	49	52
Total deferred tax assets	**62**	**67**	**62**	**67**

Notes to the financial statements

for the year ended 31 December 2012

5. INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(d) Analysis of deferred tax liability				
- Unrealised investment gains	341	258	341	258
- Other	170	128	170	128
Total deferred tax liabilities	**511**	**386**	**511**	**386**

6. RECEIVABLES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Investment income receivable	51	50	54	54
Investment sales and margin accounts receivable	227	174	223	170
Life insurance contract premiums receivable	270	277	270	277
Reinsurance and other recoveries receivable	10	11	10	11
Reinsurers' share of life insurance contract liabilities	119	98	119	98
Other receivables				
- related entities	342	202	35	206
- other entities	21	70	15	58
Total receivables(1)	**1,040**	**882**	**726**	**874**

Footnote:
(1) $81m (2011: $86m) of total receivables is expected to be recovered more than 12 months from reporting date.

7. OTHER ASSETS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Inventories	-	10	-	-
Prepayments	3	2	1	1
Other assets	-	4	-	-
Total other assets(1)	**3**	**16**	**1**	**1**

Footnote:
(1) $nil of other assets are expected to be recovered more than 12 months from the reporting date (2011: $4m).

Notes to the financial statements

for the year ended 31 December 2012

8. INVESTMENT IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Investments in financial assets measured at fair value through profit and loss				
Equity securities and listed managed investment schemes	4,818	4,132	3,948	3,351
Debt securities (1)	9,301	11,267	9,244	9,206
Investments in unlisted managed investment schemes	6,472	4,957	6,253	6,269
Derivative financial assets	398	960	359	494
Other financial assets	9	4	9	4
Total investments in financial assets at fair value through profit and loss	**20,998**	**21,320**	**19,813**	**19,324**
(b) Investments in controlled entities				
- Measured at fair value	-	-	1,435	1,241
Total investments in controlled entities	**-**	**-**	**1,435**	**1,241**
Total investments in financial assets	**20,998**	**21,320**	**21,248**	**20,565**

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 fund.

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(c) Other financial liabilities				
Derivative financial liabilities	158	557	114	88
Collateral deposits held (1)	549	637	549	637
Total other financial liabilities	**707**	**1,194**	**663**	**725**

Footnote:

(1) Collateral deposits held represents the obligation to repay collateral held in respect of debt security repurchase arrangements entered into by the statutory fund.

Notes to the financial statements
for the year ended 31 December 2012

9. INVESTMENT PROPERTIES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Investment property [1]				
Directly held	579	1,357	132	130
Total investment property	**579**	**1,357**	**132**	**130**
Movements in investment property				
Balance at the beginning of the year	1,357	1,343	130	121
Additions				
- subsequent expenditure recognised in carrying amount	10	16	2	2
Disposal through business combinations	(793)	-	-	-
Net gains / (losses) from fair value adjustments	5	(2)	-	7
Balance at the end of the year	**579**	**1,357**	**132**	**130**

Footnote:
(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 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.

	2012	2011
Primary assumptions used in valuing investment property		
Capitalisation rates	6.75% - 10.25%	6.25% - 10.25%
Market determined, risk adjusted discount rate	8.75% - 10.25%	8.75% - 10.00%

Notes to the financial statements

for the year ended 31 December 2012

10. PROPERTY, PLANT AND EQUIPMENT

2012 - Consolidated	Leasehold Improvements $m	Plant & Equipment $m	Total $m
Property, plant and equipment			
Gross carrying amount	70	86	156
Less: accumulated depreciation and impairment losses	(60)	(70)	(130)
Property, plant and equipment at written down value	**10**	**16**	**26**
Movements in property, plant and equipment			
Balance at the beginning of the year	9	16	25
Additions - through direct acquisitions	5	5	10
Depreciation expense for the year	(4)	(5)	(9)
Balance at the end of the year	**10**	**16**	**26**

2011 - Consolidated	Leasehold Improvements $m	Plant & Equipment $m	Total $m
Property, plant and equipment			
Gross carrying amount	65	81	146
Less: accumulated depreciation and impairment losses	(56)	(65)	(121)
Property, plant and equipment at written down value	**9**	**16**	**25**
Movements in property, plant and equipment			
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)
Balance at the end of the year	**9**	**16**	**25**

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2012 - Parent	Leasehold Improvements $m	Plant & Equipment $m	Total $m
Property, plant and equipment			
Gross carrying amount	70	74	144
Less: accumulated depreciation and impairment losses	(60)	(61)	(121)
Property, plant and equipment at written down value	**10**	**13**	**23**
Movements in property, plant and equipment			
Balance at the beginning of the year	9	13	22
Additions - through direct acquisitions	5	5	10
Depreciation expense for the year	(4)	(5)	(9)
Balance at the end of the year	**10**	**13**	**23**

2011 - Parent	Leasehold Improvements $m	Plant & Equipment $m	Total $m
Property, plant and equipment			
Gross carrying amount	65	69	134
Less: accumulated depreciation and impairment losses	(56)	(56)	(112)
Property, plant and equipment at written down value	**9**	**13**	**22**
Movements in property, plant and equipment			
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)
Balance at the end of the year	**9**	**13**	**22**

11. PAYABLES

	Consolidated		Parent	
	2012 $m	2011 $m	2012 $m	2011 $m
Life insurance policies in process of settlement	142	144	142	144
Accrued expenses	10	9	9	8
Interest payable	1	4	1	2
Other payables				
- subsidiaries and related entities	466	221	250	268
- other entites	123	72	111	56
Total payables(1)	**742**	**450**	**513**	**478**

Footnote:

(1) $0.5m (2011: $1m) of consolidated payables are expected to be settled more than 12 months from the reporting date (parent 2012 & 2011: $nil).

Notes to the financial statements

for the year ended 31 December 2012

12. PROVISIONS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Provisions				
Systems and other project expenditure	7	5	1	1
Total provisions [1]	7	5	1	1

	Consolidated		Parent	
	$m	$m	$m	$m
Movements in provision				
Balance at the beginning of the year	5	3	1	1
Additional provisions recognised	3	3	1	1
Payments / other sacrifices of economic benefits	(1)	(1)	(1)	(1)
Balance at the end of the year[1]	7	5	1	1

Footnote:

(1) $nil (2011: $nil) provisions are expected to be settled more than 12 months of the reporting date.

13. BORROWINGS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Borrowings				
Bank loans	-	3	-	-
Deposits				
- other entities	121	127	121	127
Other borrowings				
- related entities	169	169	263	261
- other entities	13	214	-	-
Total borrowings [1]	303	513	384	388

Footnote:

(1) $ 13m (2011: $213m) of borrowings are expected to be settled more than 12 months from the reporting date.

Notes to the financial statements

for the year ended 31 December 2012

14. LIFE INSURANCE CONTRACTS

	Consolidated and Parent	
	2012	2011
	$m	$m
(a) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premiums received and receivable	2,141	1,795
Less: component recognised as a change in life insurance contract liabilities	(981)	(693)
Life insurance contract premium revenue [1]	1,160	1,102
Reinsurance recoveries	44	38
Total life insurance contract premium and related revenue	**1,204**	**1,140**
(b) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	(2,243)	(2,245)
Less: component recognised as a change in life insurance contract liabilities	1,027	1,059
Life insurance contract claims expense	(1,216)	(1,186)
Outwards reinsurance expense	(47)	(42)
Total life insurance contract claims and related expenses	**(1,263)**	**(1,228)**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(53)	(58)
- Other	(88)	(88)
Life insurance contract maintenance expenses		
- Commission	(97)	(95)
- Other	(295)	(292)
Investment management expenses	(40)	(41)

Footnote:

(1) Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.

Notes to the financial statements

for the year ended 31 December 2012

14. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated and Parent	
	2012	2011
	$m	$m
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- Value of future life insurance contract benefits	12,701	12,339
- Value of future expenses	3,184	3,132
- Value of future premiums	(11,944)	(11,479)
Value of future profits		
- Life insurance contract holder bonuses	1,874	1,657
- Shareholder profit margins	2,590	2,554
Total life insurance contract liabilities determined using the projection method	**8,405**	**8,203**
Life insurance contract liabilities determined using accumulation method		
Best estimate liability		
- Value of future life insurance contract benefits	7,854	7,447
- Value of future life acquisition expenses	(6)	(7)
Total life insurance contract liabilities determined using accumulation method	**7,848**	**7,440**
Value of declared bonus	198	338
Unvested policyholder benefits liabilities (1)	1,374	1,266
Total life insurance contract liabilities before reinsurance	**17,825**	**17,247**
Add: Reinsurers share of life insurance contract liabilities	119	98
Total life insurance contract liabilities	**17,944**	**17,345**

Footnote:

(1) 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 policyholder benefits liabilities and is included within life insurance contract liabilities even though it is yet to be vested in specific policyholder entitlements.

14. LIFE INSURANCE CONTRACTS (CONTINUED)

	Note	Parent 2012 $m	2011 $m
(e) Reconciliation of changes in life insurance contract liabilities			
Total life insurance contract liabilities at the beginning of the year		17,345	17,762
Change in life insurance contract liabilities recognised in the statement of comprehensive income		557	(82)
Premiums recognised as an increase in life insurance contract liabilities	14(a)	981	693
Claims recognised as a decrease in life insurance contract liabilities	14(b)	(1,027)	(1,059)
Change in reinsurers' share of life insurance contract liabilities		21	32
Foreign exchange adjustment		67	(1)
Total life insurance contract liabilities at the end of the year	14(d)	**17,944**	**17,345**

(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(q) 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 follows:

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

Notes to the financial statements

for the year ended 31 December 2012

14. LIFE INSURANCE CONTRACTS (CONTINUED)

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.

Business Type		Basis[1]	31 December 2012		31 December 2011	
			Australia	New Zealand	Australia	New Zealand
Retail risk (other than income benefit open claims)		Zero coupon government bond yield curve	2.6% - 4.4%	2.5% - 4.1%	3.2% - 4.6%	2.5% - 4.1%
Retail risk and Group risk (income benefit open claims)		Zero coupon government bond yield curve (including liquidity premium)	2.9% - 4.7%	2.8% - 4.4%	3.8% - 5.2%	2.8% - 4.4%
Life annuities	Non-CPI	Zero coupon government bond yield curve (including liquidity premium)	3.0% - 4.8%	2.9% - 4.5%	3.8% - 5.1%	2.8% - 4.8%
	CPI	Commonwealth Indexed bond yield curve (including liquidity premium)	0.8% - 1.8%	1.0% - 2.0%	1.5% - 2.2%	1.3%

Footnote:
(1) The discount rates vary by duration in the range shown above.

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

		Risk Premiums				
	10 Year Government Bonds	Local equities	International equities	Property	Fixed Interest	Cash
Australia						
31 December 2012	3.3%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2011	3.7%	4.5%	3.5%	2.5%	0.8%	(0.5%)
New Zealand						
31 December 2012	3.6%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2011	3.8%	4.5%	3.5%	2.5%	0.8%	(0.5%)

The risk premium for local equities includes allowance for imputation credits. The risk premium 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
Australia				
31 December 2012	30%	11%	39%	20%
31 December 2011	30%	11%	39%	20%
New Zealand				
31 December 2012	40%	17%	37%	6%
31 December 2011	40%	17%	37%	6%

The asset mix in the table above includes both conventional and investment account business.

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 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 shareholder 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 capital adequacy.

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

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(iii) Future participating benefits (continued)

Typical supportable bonus rates on major product lines are as follows (31 December 2011 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	0.4% - 0.9% (0.2% - 0.8%)	0.7% - 0.9% (0.4% - 0.8%)
New Zealand	0.4% - 0.7% (0.3% - 0.5%)	0.4% - 0.7% (0.3% - 0.5%)

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

Crediting rates (investment account)	
Australia	2.2% - 4.6% (1.6% - 3.7%)
New Zealand	2.9% - 3.1% (2.4% - 2.9%)

(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 group. Unit costs vary by product line and class of business based on an apportionment that is supported by expense analyses.

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

(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 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 2012	2.7% CPI, 3.0% Expense	2.5% CPI, 3.0% Expense
31 December 2011	2.6% CPI, 3.0% Expense	2.5% CPI, 3.0% Expense

(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 historical experience. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration, premium structure, smoker status, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across AMP Life SF1 are extremely diverse.

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

	31 December 2012		31 December 2011	
Business type	**Australia**	**New Zealand**	**Australia**	**New Zealand**
Conventional	2.1% - 3.0%	1.3% - 2.5%	2.1% - 3.0%	1.3% - 2.5%
Retail risk (lump sum)	11.9% - 22.0%	10.5% - 12.0%	9.0% - 20.0%	10.5% - 12.0%
Retail risk (income benefit)	8.0% - 20.0%	7.0% - 12.0%	10.0% - 11.0%	7.0% - 12.0%
Flexible Lifetime Super (FLS) risk business (ultimate rate)	8.8% - 22.7%	n/a	7.5% - 13.0%	n/a

Voluntary discontinuance assumptions have increased from those used at 31 December 2011 for retail risk.

Notes to the financial statements

for the year ended 31 December 2012

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(viii) Surrender values

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

(ix) Mortality and morbidity

Standard mortality tables, based on national or industry wide data, are used. These are then adjusted by factors that take account of AMP Life's own experience.

Rates of mortality assumed at 31 December 2012 for AMP Life SF1 are unchanged from those assumed at 31 December 2011 in Australia and New Zealand, except for:

- Australian and New Zealand conventional business – added an adjustment to allow for future mortality improvements
- Term (Retail risk lump sum) in Australia has reduced

Typical mortality assumptions, in aggregate, are as follows:

	Conventional - % of IA95-97[1]		Term - % of IA95-97		FLS Risk - % of IA95-97	
Risk products	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
Australia	67.5%	67.5%	60%	60%	63%	63%
New Zealand	73%	73%	63%	63%	63%	63%

Footnote:

(1) Base IA95-97 table modified for future mortality improvements

Annuities	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. Rates have changed for Australia from those at 31 December 2011, resulting in a higher incidence rate for future claims overall and a lower rate for termination of claims.

Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates - % of IAD89-93	Termination rates (ultimate) - % of IAD89-93
Australia	52% - 113%	63% - 94%
New Zealand	60%	54% - 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 recent claims experience. Trauma assumptions at 31 December 2012 have increased from those used at 31 December 2011.

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.

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(x) Impact of changes in assumptions

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

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

The impact on future profit margins of changes in assumptions from 31 December 2011 to 31 December 2012 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 Shareholder' profit & equity $m
Non-market related changes to discount rates	(21)	-	-
Mortality and morbidity	(38)	-	-
Discontinuance rates	(211)	-	-
Maintenance expenses	35	-	-
Other assumptions[1]	56	-	-

Footnote:
(1) Other assumptions changes include the impact of product and 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.

		Change in life insurance contract liabilities		Change in shareholder profit after income tax, and equity	
Variable	Change in variable	Gross of reinsurance $m	Net of reinsurance $m	Gross of reinsurance $m	Net of reinsurance $m
Mortality	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	-	-	-	-

Notes to the financial statements

for the year ended 31 December 2012

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, including concentration risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are 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 SF1 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 2012

14. 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 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
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)	These policies provide guaranteed benefits, which are paid on the 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.
Life annuity contracts	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.
Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)	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.	Benefits arising from the discretionary bonuses are based on the performance of a specified pool of contracts and the assets supporting these contracts.	Market earning rates on assets backing the liabilities, lapses, expenses, and mortality.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	Payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and the 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.

(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
2012	784	2,022	6,590	9,396
2011	747	2,024	6,184	8,955

Notes to the financial statements

for the year ended 31 December 2012

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

	Consolidated and Parent	
	2012	2011
	$m	$m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	258	259
- Profits arising from difference between actual and assumed experience	9	98
- Capitalised (losses) reversals	-	1
Profit related to life insurance and investment contract liabilities	267	358
Attributable to:		
- Life insurance contracts	262	344
- Investment contracts	5	14
Investment earnings on assets in excess of life insurance and investment contract liabilities	63	80

(b) Restrictions on assets in statutory funds

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. See further details about solvency and capital adequacy in Note 15(d).

AMP Life SF1 details as set out below:

No. 1 fund	Australia	Capital guaranteed business (whole of life, endowment, investment account, retail and group risk, and immediate annuities).
	New Zealand	All business (whole of life, endowment, investment account, retail and group risk, investment-linked and immediate annuities).

	Consolidated and Parent	
	2012	2011
	$m	$m
(c) Capital guarantees		
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,530	13,493
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1	2
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	116	124

Notes to the financial statements

for the year ended 31 December 2012

15. 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 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 2012 were 55% (31 December 2011: 57%).

Capital adequacy requirements

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for each life entity to be allowed to make distributions to its shareholder 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 SF1 has confirmed that the available assets of life statutory fund has 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 2012 were 33% (31 December 2011: 29%).

Notes to the financial statements

for the year ended 31 December 2012

15. 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 APRA Prudential 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:

		2012 $m	2011 $m
Solvency requirement			
- Net minimum termination value - MTV		19,715	19,260
- Adjusted other liabilities		2,378	2,332
- Solvency reserve	B	2,518	2,145
TOTAL SOLVENCY REQUIREMENT	**A**	**24,611**	**23,737**
Assets available for solvency			
- Net assets		1,824	1,740
- Liability for unvested policyholder benefits at the end of the year		1,374	1,267
- Excess of net policy liabilities (including policyholder bonuses) over MTV		697	361
TOTAL ASSETS AVAILABLE FOR SOLVENCY	**C**	**3,895**	**3,368**
Solvency reserve %	**(B/(A-B))*100**	**11.4%**	**9.9%**
Coverage of solvency reserve	**C/B**	**1.5**	**1.6**

(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 which may be recovered or settled within 12 months after the reporting date

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately $3,733m (2011: $3,426m) of policy liabilities may be settled within 12 months from the reporting date.

(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.

Notes to the financial statements

for the year ended 31 December 2012

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(i) Income statement by non-investment linked and investment linked

	Non Investment Linked 2012 $m	Investment Linked 2012 $m	Total Parent 2012 $m
Income and expenses of policyholder, shareholders, external unitholders and minority interests			
Life insurance premium and related revenue	1,204	-	1,204
Fee and other revenue	49	2	51
Investment gains	2,058	12	2,070
Life insurance claims and related expenses	(1,263)	-	(1,263)
Operating expenses	(628)	(1)	(629)
Finance costs	(32)	-	(32)
Change in life insurance contract liabilities	(557)	-	(557)
Change in investment contract liabilities	(183)	(11)	(194)
Profit before income tax	648	2	650
Income tax expense	(318)	(2)	(320)
Net profit for the year	330	-	330

	Non Investment Linked 2011 $m	Investment Linked 2011 $m	Total Parent 2011 $m
Income and expenses of policyholder, shareholders, external unitholders and minority interests			
Life insurance premium and related revenue	1,140	-	1,140
Fee and other revenue	42	2	44
Investment gains / (losses)	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)/credit	(326)	(1)	(327)
Net profit after income tax	437	-	437

Notes to the financial statements

for the year ended 31 December 2012

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

	Non Investment Linked 2012 $m	Investment Linked 2012 $m	Elimination 2012 $m	Total Parent 2012 $m
Assets				
Investments in financial assets	19,713	100	-	19,813
Investment property	132		-	132
Investments in controlled entities	1,365	70	-	1,435
Other assets	4,375	2	167	4,544
Total assets of policyholders, shareholder, external unit holders and minority interests	**25,585**	**172**	**167**	**25,924**
Liabilities				
Life insurance contract liabilities	17,944	-	-	17,944
Investment contract liabilities	3,874	88	-	3,962
Other liabilities	1,943	84	167	2,194
Total liabilities of policyholders, shareholder, external unit holders and minority interests	**23,761**	**172**	**167**	**24,100**
Net assets of AMP Life SF1	**1,824**	**-**	**-**	**1,824**
Equity				
Contributed equity	303	-	-	303
Reserves	(18)	-	-	(18)
Retained earnings	1,539	-	-	1,539
Total equity of AMP Life SF1	**1,824**	**-**	**-**	**1,824**

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15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

	Non Investment Linked 2011 $m	Investment Linked 2011 $m	Elimination 2011 $m	Total Parent 2011 $m
Assets				
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	-	189	4,180
Total assets	**24,536**	**150**	**189**	**24,875**
Liabilities				
Life insurance contract liabilities	17,345	-	-	17,345
Investment contract liabilities	3,554	86	-	3,640
Other liabilities	1,897	64	189	2,150
Total liabilities	**22,796**	**150**	**189**	**23,135**
Net assets	**1,740**	**-**	**-**	**1,740**
Equity				
Contributed equity	303	-	-	303
Reserves	(34)	-	-	(34)
Retained earnings	1,471	-	-	1,471
Total equity	**1,740**	**-**	**-**	**1,740**

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

	Non Investment Linked 2012 $m	Investment Linked 2012 $m	Total Parent 2012 $m	Total Consolidated 2012 $m
Opening retained earnings	1,471	-	1,471	1,471
Profit for the year	330	-	330	330
Transfer to AMP Life Limited Shareholder Fund	(262)	-	(262)	(262)
Transfers between Statutory Funds	-	-	-	-
Closing retained earnings	**1,539**	**-**	**1,539**	**1,539**

	Non Investment Linked 2011 $m	Investment Linked 2011 $m	Total Parent 2011 $m	Total Consolidated 2011 $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**

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

AMP Life SF1's financial 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. Below is a summary of the AMP group's financial risk management policies which may impact AMP Life SF1.

Financial Risk Management
The AMP Limited Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and is operating effectively. This includes setting the financial risk appetite and approval of the AMP group Financial Risk Management Framework (FRM Framework), its sub-policies, the shareholder capital investment strategy, capital and financing plans.

The principal objective of AMP's financial risk management is to establish a robust structure for identifying, assessing, managing, quantifying, reporting and escalating financial risks. The FRM Framework is consistent with both the AMP group Risk Appetite Statement, which outlines AMP's appetite, to take certain risks in order to grow its profits and the AMP Enterprise Risk Management Policy which establishes the principles, requirements, roles and responsibilities for the management of all categories of risk across AMP.

The FRM Framework includes delegations, roles and responsibilities, escalations and reporting, as well as outlining AMP group's FRM objectives. 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 them.

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 both AMP Life and National Mutual Life Association of Australasia (NMLA). 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 the capital position to Group ALCO, the AMP Limited Audit Committee and the Board, monitoring compliance with the FRM Framework, and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the Board.

The Audit Committee ensures the existence of effective FRM policies and procedures, and is responsible for the oversight of the execution of the FRM Framework. The AMP Life and NMLA Audit Committees are delegated responsibility for the elements specific to their respective businesses. Internal Audit reviews the design and operational effectiveness of the FRM Framework as part of its ongoing audit cycle.

Operating entities are required to comply with the Board approved risk appetite and are also responsible for approving policyholder asset and liability strategies.

The appointed actuaries provide oversight to the AMP Life and NMLA Boards, Audit Committees, Group ALCO, AFS ALCO, as well as externally to APRA, on the financial condition of AMP Life and NMLA. The appointed actuaries are also responsible for giving advice to AMP Life and NMLA on the distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. The Life Insurance Act (Life Act) also imposes obligations on an Appointed Actuaries to bring to the attention of AMP Life and NMLA, or in some circumstances, APRA, any matter that the appointed actuaries believes requires action to avoid prejudice to the interests of policyholders.

Information about the capital management activities within the AMP group, including the relationship with regulatory requirements on the regulated entities, is provided in Note 17.

(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 AMP group 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 has equity market exposure in its businesses (for example through fees on Assets Under Management).

Financial risks arising in the AMP group include market risk (investment risk, interest rate risk, foreign exchange 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 of assets and liabilities, 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 group arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, and interest bearing investments.

(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.

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16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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 group'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 the AMP group. Management of those risks is decentralised according to the activity. Details are as follows:

- *AMP Life SF1* – As discussed in Note 1(b), AMP Life conduct their wealth management and life insurance business through separate life statutory funds including AMP Life SF1. 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.

  The interest rate risk of AMP Life SF1 which impacts the shareholder 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 the shareholder.

  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 and NMLA are 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 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 shifts. 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 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 AMP Life SF1.

	2012		2011	
Change in variables	**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**
+ 100 basis points	(49)	(49)	(22)	(22)
- 100 basis points	54	54	43	43

(ii) Currency risk
Currency risk is the risk of an impact on AMP group's profit after tax and equity from movements in foreign exchange rates. Changes in value would occur in respect of translating the AMP group'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).

Other than where the impact would be immaterial, corporate debt is typically converted to Australian dollars through cross-currency swaps. Individual investment assets in shareholder capital (excluding the international equities portfolio attributable to the shareholder within the life Statutory Fund No.1 fund) and in the Seed Pool are hedged, and expected foreign currency receipts and payments are hedged once the value and timing of the expected cash flow is known.

Subject to Group ALCO approval, Group Treasury may allow for natural hedging of foreign exchange risk through unhedged foreign currency borrowings, or enter into discretionary foreign exchange transactions to hedge enterprise-wide exposures.

AMP group does not hedge the capital invested in overseas operations (other than foreign Seed Pool investments), thereby accepting the foreign currency translation risk on invested capital.

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16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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 per cent is determined considering the range of currency exposures in the AMP Life SF1.

	2012		2011	
Change in variables	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	(1)	(1)
10% appreciation of AUD	(1)	(1)	1	1

(iii) Equity price risk

Equity price risk is the risk of an impact on AMP group's profit after tax and equity from movements in equity prices. AMP Life SF1 measures equity securities at fair value through profit or loss. Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

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 group's investment linked business is not included. A sensitivity level of 10 per cent is determined considering the widely spread portfolios held by the AMP group and the range of movements in equity markets for the periods.

	2012		2011	
Change in variables	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	9	9	8	11
10% increase in International equities	10	10	(1)	-
10% decrease in Australian equities	(5)	(5)	(16)	(18)
10% decrease in International equities	(1)	(1)	1	-

(c) Liquidity and refinancing risk

Liquidity risk is the risk that the AMP group 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 group 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 Limited Board.

Financiers of loans owing by controlled entities of the life statutory funds do not have legal recourse beyond the operating subsidiary borrower and there is no direct effect on any other AMP group debt.

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16. 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

2012 - Consolidated	Up to 1 year or no term $m	1 to 5 years $m	More than 5 years $m	Other (2) $m	Total $m
Payables	741	-	-	-	741
Borrowings	304	-	-	-	304
Investment contract liabilities (2)	1,573	1,063	1,654	88	4,378
External unit holder liabilities	-	-	-	539	539
Total undiscounted financial liabilities (3)	**2,618**	**1,063**	**1,654**	**627**	**5,962**

2011 - Consolidated	Up to 1 year or no term $m	1 to 5 years $m	More than 5 years $m	Other $m	Total $m
Payables	448	1		1	450
Borrowings	300	213	-	-	513
Investment contract liabilities (2)	1,248	1,111	1,685	86	4,130
External unit holder liabilities	-	-	-	1,621	1,621
Total undiscounted financial liabilities	**1,996**	**1,325**	**1,685**	**1,708**	**6,714**

2012 - Parent	Up to 1 year or no term $m	1 to 5 years $m	More than 5 years $m	Other (2) $m	Total $m
Payables	512	-	-	-	512
Borrowings	384	-	-	-	384
Investment contract liabilities (2)	1,573	1,063	1,654	88	4,378
Total undiscounted financial liabilities (3)	**2,469**	**1,063**	**1,654**	**88**	**5,274**

2011 - Parent	Up to 1 year or no term $m	1 to 5 years $m	More than 5 years $m	Other $m	Total $m
Payables	478	-	-	1	479
Borrowings	388	-	-	-	388
Investment contract liabilities (2)	1,248	1,111	1,685	86	4,130
Total undiscounted financial liabilities	**2,114**	**1,111**	**1,685**	**87**	**4,997**

Footnote:

(1) The table provides maturity analysis of AMP Life SF1's financial liabilities and non-linked investment contracts including term annuities.

(2) Investment contract liabilities of $nil (2011: $86m) 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 out flow profile of life insurance contract liabilities is disclosed in Note 14(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 the 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 Audit Committees through weekly and quarterly FRM reports.

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16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(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 group's portfolio.

Compliance is monitored and exposures and breaches are reported to senior management and the AMP Audit Committee through the weekly and quarterly FRM Report.

(ii) Exposure to credit risk
The exposures on interest bearing securities and cash equivalents which impact the AMP group's capital position are managed by AMP Treasury within limits set by the AMP Concentration Risk Policy. The following table provides information regarding the credit risk exposures for items monitored by AMP Treasury according to the credit rating of the counterparties.

	2012 $m	2011 $m
AAA	2,529	3,539
AA	8,686	7,295
A	2,165	3,174
BBB	847	1,114
Below BBB	64	156
Total financial assets with credit risk exposure managed by AMP Treasury	**14,291**	**15,278**

(iii) Past due but not impaired financial assets
No disclosures are required for the parent entity as the parent 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 SF1:

	2012 $m	2011 $m
Cumulative adjustment	20	26
Change during the period	(7)	7

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.

Notes to the financial statements

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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 Statement of comprehensive income unless they qualify as effective cash flow hedges or net investment hedges for accounting purposes, as set out in Note 1(o).

(i) Derivative transactions undertaken by AMP Life SF1 insurance entities as part of life insurance operations

The AMP group 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.

(ii) Risk relating to derivative financial instruments

The market risk of derivatives is managed and controlled as an integral part of the financial risk of the AMP group. The credit risk of derivatives is also managed in the context of the AMP group'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 arm's 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 the AMP group's own data, reflecting the AMP group'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.

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16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

2012 - Consolidated	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	4,302	-	516	4,818
Debt securities	-	9,170	131	9,301
Investment in unlisted managed investment schemes	-	6,255	217	6,472
Derivative financial assets	146	252	-	398
Other financial assets	-	9	-	9
Total financial assets	**4,448**	**15,686**	**864**	**20,998**
Liabilities				
Borrowings	-	304	-	304
Other financial liabilities	594	113	-	707
Investment contract liabilities	-	3,444	518	3,962
Total financial liabilities	**594**	**3,861**	**518**	**4,973**

2011 - Consolidated	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	3,592	68	472	4,132
Debt securities	-	11,084	183	11,267
Investment in unlisted managed investment schemes	16	4,713	228	4,957
Derivative financial assets	248	712	-	960
Other financial assets	-	4	-	4
Total financial assets	**3,856**	**16,581**	**883**	**21,320**
Liabilities				
Borrowings	-	513	-	513
Other financial liabilities	680	514	-	1,194
Investment contract liabilities	-	3,064	576	3,640
Total financial liabilities	**680**	**4,091**	**576**	**5,347**

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16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

2012 - Parent	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	3,823	-	125	3,948
Debt securities	-	9,125	119	9,244
Investment in unlisted managed investment schemes	-	6,101	152	6,253
Derivative financial assets	145	214	-	359
Other financial assets	-	9	-	9
Investments in controlled entities	-	1,435	-	1,435
Total financial assets	**3,968**	**16,884**	**396**	**21,248**
Liabilities				
Borrowings	-	384	-	384
Other financial liabilities	594	69	-	663
Investment contract liabilities	-	3,444	518	3,962
Total financial liabilities	**594**	**3,897**	**518**	**5,009**

2011 - Parent	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	3,213	7	131	3,351
Debt securities	-	9,055	151	9,206
Investment in unlisted managed investment schemes	-	6,102	167	6,269
Derivative financial assets	211	283	-	494
Other financial assets	-	4	-	4
Investments in controlled entities	-	1,241	-	1,241
Total financial assets	**3,424**	**16,692**	**449**	**20,565**
Liabilities				
Borrowings	-	388	-	388
Other financial liabilities	667	58	-	725
Investment contract liabilities	-	3,064	576	3,640
Total financial liabilities	**667**	**3,510**	**576**	**4,753**

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16. 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:

2012 - Consolidated

	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
	$m	$m	$m	$m	$m	$m	$m
Assets							
Equity securities and listed managed investment schemes	472	33	13	(2)	-	516	33
Debt securities	183	(10)	1	(89)	46	131	(10)
Investments in unlisted managed investment schemes	228	(11)	-	-	-	217	(11)
Total financial assets	883	12	14	(91)	46	864	12
Liabilities							
Investment contract liabilities	576	51	2	(115)	-	518	50
Total financial liabilities	576	51	2	(115)	-	518	50

2011 - Consolidated

	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
	$m	$m	$m	$m	$m	$m	$m
Assets							
Equity securities and listed managed investment schemes	448	23	2	(1)	-	472	23
Debt securities	135	37	-	(50)	61	183	37
Investments in unlisted managed investment schemes	127	(5)	-	(5)	111	228	(5)
Total financial assets	710	55	2	(56)	172	883	55
Liabilities							
Investment contract liabilities	666	44	2	(136)	-	576	44
Total financial liabilities	666	44	2	(136)	-	576	44

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16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

2012 - Parent

	Balance at the beginning of the year $m	Total gains/(losses) $m	Purchases / deposits $m	Sales / withdrawals $m	Net transfers in/(out) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets							
Equity securities and listed managed investment schemes	131	(17)	13	(2)	-	125	(17)
Debt securities	151	(4)	1	(75)	46	119	(4)
Investments in unlisted managed investment schemes	167	(15)	-	-	-	152	(15)
Total financial assets	449	(36)	14	(77)	46	396	(36)
Liabilities							
Investment contract liabilities	576	51	2	(115)	-	518	50
Total financial liabilities	576	51	2	(115)	-	518	50

2011 - Parent

	Balance at the beginning of the year $m	Total gains/(losses) $m	Purchases / deposits $m	Sales / withdrawals $m	Net transfers in/(out) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets							
Equity securities and listed managed investment schemes	121	8	2	-	-	131	8
Debt securities	108	34	-	(46)	55	151	34
Investments in unlisted managed investment schemes	128	(12)	-	(5)	56	167	(12)
Total financial assets	357	30	2	(51)	111	449	30
Liabilities							
Investment contract liabilities	666	44	2	(136)	-	576	44
Total financial liabilities	666	44	2	(136)	-	576	44

Notes to the financial statements

for the year ended 31 December 2012

16. 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:

	2012			2011		
	Carrying amount	Effect of reasonably possible alternative assumptions (+/-)		Carrying amount	Effect of reasonably possible alternative assumptions (+/-)	
		+	-		+	-
Consolidated	$m	$m	$m	$m	$m	$m
Assets						
Equity securities and listed managed investment schemes	516	9	(9)	472	33	(17)
Debt securities	134	-	-	183	-	-
Investments in unlisted managed investment schemes	217	-	-	228	-	-
Total financial assets	867	9	(9)	883	33	(17)
Liabilities						
Investment contract liabilities	518	6	(6)	576	(10)	10
Total financial liabilities	518	6	(6)	576	(10)	10

	2012			2011		
	Carrying amount	Effect of reasonably possible alternative assumptions (+/-)		Carrying amount	Effect of reasonably possible alternative assumptions (+/-)	
		+	-		+	-
Parent	$m	$m	$m	$m	$m	$m
Assets						
Equity securities and listed managed investment schemes	125	7	(7)	131	16	-
Debt securities	119	-	-	151	-	-
Investments in unlisted managed investment schemes	152	-	-	167	-	-
Total financial assets	396	7	(7)	449	16	-
Liabilities						
Investment contract liabilities	518	6	(6)	576	(10)	10
Total financial liabilities	518	6	(6)	576	(10)	10

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

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 Life group and is an APRA regulated entity. 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. From 1 January 2013, these will be replaced with revised APRA prudential standards.
- Controlled entities of AMP Life SF1that 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.

The target surplus policy for AMP Life has been revised following the introduction of revised life insurance APRA Prudential Standards, which take effect 1 January 2013.

APRA has introduced revised Prudential Standards relating to minimum financial requirements of superannuation funds. These revised prudential standards will commence on 1 July 2013, with transitional arrangements applying over the three years following the commencement date.

Notes to the financial statements

for the year ended 31 December 2012

18. NOTES TO STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Reconciliation of the net profit after income tax to cash flows from/(used in) operating activities				
Net profit after income tax	330	437	330	437
Depreciation of operating assets	9	9	9	9
Investments gains and losses - realised and unrealised	(658)	20	(859)	(211)
Dividend and distribution income reinvested	(248)	(252)	(248)	(315)
(Increase) / decrease in receivables and other assets	(343)	(279)	(50)	(311)
Increase / (decrease) in net policy liabilities	921	563	921	563
Increase/(decrease) in income tax balances	62	95	63	94
Increase/(decrease) in other payables	484	(193)	14	(171)
Cash flows from / (used in) operating activities	**557**	**400**	**180**	**95**
(b) Reconciliation of cash and cash equivalents				
Cash on hand	154	76	22	(48)
Cash on deposit	3,791	3,341	3,690	3,261
Short term bills and notes (included in debt securities)	871	1,546	871	1,546
Balance at the end of the year	**4,816**	**4,963**	**4,583**	**4,759**

19. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

				% Holdings	
NAME OF ENTITY	INCORPORATION	Share type	Footnote	2012	2011
255 George Street Investment A Pty Limited	Australia	Ord		100	100
Allmarg Corporation Limited	New Zealand	Ord, Pref		100	100
AMP Capital Investments No. 2 Limited	New Zealand	Ord A & B, Pref		100	100
AMP Capital Investments No. 8 Limited	New Zealand	Ord A & B, Pref		100	100
AMP Capital Investments No. 11 Limited	New Zealand	Ord A & B		100	100
AMP Capital Investments No. 14 Limited	New Zealand	Ord A & B		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 Life (NZ) Investments Holdings Limited	New Zealand	Ord		100	100
AMP Life (NZ) Investments Limited	New Zealand	Ord		100	100
Donaghys Australia Pty Limited	New Zealand	Ord	(1)	-	58
Donaghys Industries Limited	New Zealand	Ord	(1)	-	58
Donaghys International Limited	New Zealand	Ord	(1)	-	58
Donaghys Limited	New Zealand	Ord, Pref	(1)	-	58
Donaghys Pty Limited	New Zealand	Ord	(1)	-	58
Kent Street Pty Limited	Australia	Ord		100	100
Mowla Pty Limited	Australia	Ord		100	100
Aged Care Investment Services No.1 Pty Limited	Australia	Ord		100	100
Aged Care Investment Services No.2 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
Kiwi Kat Limited	New Zealand	Ord		70	70

Footnote:

(1) Controlling interest was disposed of in 2012.

Notes to the financial statements
for the year ended 31 December 2012

19. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings 2012	2011
AMP Capital Asian Equity Growth Fund	Australia		73	73
AMP Capital Investors Australian Equity Long Short Fund	Australia		100	100
AMP Capital Credit Strategies Fund	Australia		93	93
AMP Capital Macro Strategies Fund	Australia		84	84
Australia Pacific Airports Fund	Australia		66	66
AMP Capital Asia Local Currency Bond Fund	Australia	(1)	100	-
AMP Capital Australian Equity Income Fund	Australia	(1)	100	-
AMP Capital Investors Infrastructure Fund 1	Australia		53	53
AMP Capital Global Equities Sector Rotation Fund	Australia		100	100
AMP Capital Global Resource Fund	Australia	(1)	100	-
AMP UK Shopping Centre Fund	Australia		100	100
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Australia	(2)	-	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	Australia	(2)	-	58
The Glendenning Trust	Australia		100	100
Global Credit Strategies Fund	Australia		87	87
Floating Rate Income Fund	Australia		77	77

Footnote:

(1) Controlling interest acquired in 2012.

(2) Controlling interest was disposed of in 2012.

Notes to the financial statements

for the year ended 31 December 2012

20. ASSOCIATES

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

COMPANIES(2)	PRINCIPAL ACTIVITY		Ownership interest 2012 %	Ownership interest 2011 %	Carrying amount 2012 $m	Carrying amount 2011 $m
TOA Pty Limited CTG	Investment Company		50	50	164	164
Gove Aluminum Finance Limited	Investment into aluminum smelter Tomago,NSW		20	20	79	90
AMP Pencarrow Private Capital	Investment Company		34	34	3	3
Total Parent					**246**	**257**
UNIT TRUSTS (2)						
NAME OF TRUST						
AMP Capital Shopping Centre Fund	Investment Trust		25	28	474	486
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Investment Trust	(3)	26	-	304	-
AMPCI Strategic Infrastructure Fund 1	Investment Trust		23	19	44	40
AMPCI Strategic Infrastructure Fund 2	Investment Trust		23	19	45	40
AMP Life Cash Management Trust	Investment Trust	(3)	45	-	1,164	-
Managed Treasury Fund	Investment Trust		18	21	488	548
Aged Care Investment Trust No. 1 (formerly Principle Healthcare Finance Unit Trust 1)	Investment Trust		25	24	40	38
Aged Care Investment Trust No. 2 (formerly Principle Healthcare Finance Unit Trust 2)	Investment Trust		25	24	40	38
Others (less than $30m)	Investment Trust		various	various	27	48

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 31December. 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.
(3) Entity was controlled at 31December 2011and has now become an affiliate.

21. 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 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'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.

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 SF1 for the whole or part of the reporting period as indicated:

Catherine Brenner	Chairman, Non-Executive Director	
Craig Dunn	Director, Chief Executive Officer - AMP Limited	
Craig Meller	Managing Director – AMP Financial Services	
Anthony Coleman	Non-Executive Director	
Diana Eilert	Non-Executive Director	Appointed: 10 August 2012
John Palmer	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Resigned: 31 March 2012
Peter Shergold	Non-Executive Director	

Notes to the financial statements

for the year ended 31 December 2012

22. 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 SF1 Limited.

	Short Term Benefits $	Post Employment Benefits $	Share Based Payments $	Total $
2012	5,613,295	103,037	3,376,000	**9,092,332**
2011	5,396,426	85,318	3,341,000	**8,822,744**

Footnote:

The fees paid to non-executive directors of AMP Life are the combined fees for AMP Life Limited and the National Mutual Life Association of Australasia Limited.

(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 SF1 would have adopted if dealing at arm's length with an unrelated individual. These transactions include:

- Purchase of insurance products available to other employees and policy owners;
- Purchase of superannuation products available to other employees and policy owners;
- Placement of funds on deposit; and
- Acquisition and disposal of units in controlled managed investment scheme and receipts of trust distributions.

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.

No Director or Director-related entities had loans with AMP Life in 2012 (2011: nil).

A number of Directors of the company are also Directors of public companies and/or are a Partner of a professional service partnership which have transactions with AMP Life SF1. The Directors do not believe that they have the capacity to control or significantly influence the financial or operating policies of either company in their dealings with each other. Those companies are therefore not considered to be Director-related entities.

(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 2011 and 31 December 2012 are unsecured, non interest bearing and settlement occurs in cash or through intercompany accounts as necessary.

AMP Life SF1 purchases administrative services from AMP Services Limited and AMP Services (NZ) Limited on a fee service basis. (2012: $364m, 2011: $357m). 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.

The company has amounts in deposits with AMP Bank Limited (2012: $3,680m, 2011: $3,253m). Deposits earn interest at normal commercial rates.

Notes to the financial statements

for the year ended 31 December 2012

22. RELATED PARTY DISCLOSURES (CONTINUED)

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.

Fellow subsidiaries of AMP Limited		Service, management and other fees received from related parties $m	Service, management and other fees paid to related parties $m	Amounts owed by related parties $m	Amounts owed to related parties $m
AMP Bank Limited	2012	-	-	3,680	-
	2011	-	-	3,253	-
AMP Bermuda Ltd	2012	-	-	-	59
	2011	-	-	-	59
AMP Capital Investors Limited	2012	8	49	-	28
	2011	5	57	-	30
AMP Financial Planning	2012	-	112	8	-
	2011	-	112	5	-
AMP Life Ltd Australia Shareholders Funds	2012	-	-	-	401
	2011	-	-	-	150
AMP Life Ltd Australia Statutory Fund 2	2012	-	-	191	-
	2011	-	-	83	-
AMP Services Limited	2012	-	328	-	-
	2011	-	320	-	-
TOA Pty Limited	2012	-	-	-	159
	2011	-	-	-	159

23. AUDITOR'S REMUNERATION

All auditors' remuneration payable to the auditors of AMP Life SF1 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 SF1Group 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, other than the following:

- From 1 January 2013, revised life insurance APRA Prudential Standards relating to capital adequacy apply to AMP Life SF1. As at 31 December 2012, AMP Life SF1's capital adequacy multiple would have been 1.6 had these revised requirements applied (the capital adequacy multiple is a coverage ratio that expresses the total capital base divided by the prescribed capital amount). The equivalent multiple under the current standards at 31 December 2012 is 1.3. As at 1 January 2013, the total capital base of AMP Life SF1 exceeds its prescribed capital amount under these revised standards.

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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 (the company) and its controlled entities, which comprises the statement of financial position as at 31 December 2012, 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 2012 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.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
3 May 2013

Appointed Actuary's Report

To the Directors of AMP Life Limited ("AMP Life")

This report has been prepared for AMP Life in accordance with Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").

In terms of Section 77(1) of the Act, I have reviewed the actuarial information contained in, or used in the preparation of the Directors' Report and Financial Report for AMP Life Statutory Fund No 1 for the year ended 31 December 2012 ("the Financial Statements").

For the purposes of this report, "actuarial information" is as defined in Section 77(4) of the Act, together with paragraph 4.1.1 of the Attachment to the Section 59 "Exemption from Compliance with Solvency Standard" granted to AMP Life by the Reserve Bank of New Zealand under the Act.

I certify that in my opinion**:**

a) The value of policy liabilities of AMP Life and the solvency of AMP Life have been determined using methods and assumptions consistent with the actuarial prudential standards issued by the Australian Prudential Regulation Authority ("APRA").

b) The allocation and distribution of the profits of Statutory Fund No 1 of AMP Life have been made in accordance with Divisions 5 and 6 of Part 4 of the Australian Life Insurance Act 1995 (Life Act) and the Constitution of AMP Life.

c) Proper records have been kept by AMP Life from which its policy liabilities and solvency have been able to be properly determined.

d) The apportionment of income and outgo used in preparing the AMP Life accounts at 31 December 2012, as required under sections 78 and 79 of the Life Act, is appropriate.

e) I have obtained all of the information and explanations that I require from AMP Life.

In addition, I certify that in my opinion, and from an actuarial perspective:

f) The actuarial information contained in the Financial Statements has been appropriately included in those statements.

g) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

h) AMP Life has fully complied with the APRA solvency standard and capital adequacy standard throughout the year ended 31 December 2012 in relation to Statutory Fund No 1. Note that the APRA solvency standard is the applicable standard that applies under the Section 59 exemption granted by the Reserve Bank of New Zealand.

Other than my relationship as Appointed Actuary of AMP Life Limited, I am an employee of the AMP Group, of which AMP Life forms part, and a member of the AMP Employees' Superannuation Plan. I hold shares and options in AMP Limited, the ultimate holding company of AMP Life. I am a customer of AMP Bank Limited, which is also part of the AMP Group.

This report is provided solely in my capacity as the AMP Life Limited Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, AMP Life Limited and its directors and shareholders.

RM Mangano

Rocco Mangano FIAA
Appointed Actuary, AMP Life Limited
24 April 2013

AMP

AMP Life Limited

ABN 84 079 300 379

Directors' Report and Financial Report for the year ended 31 December 2012

AMP LIFE LIMITED

ABN 84 079 300 379

DIRECTORS' REPORT AND FINANCIAL REPORT
31 DECEMBER 2012

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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 Financial Report

Directors' Report

for the year ended 31 December 2012

The directors of AMP Life Limited ('AMP Life' or 'the company') present their report on the company for the financial year ended 31 December 2012.

AMP Life Limited 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.

Catherine Brenner	Chairman, Non-Executive Director	
Craig Dunn	Director, Chief Executive Officer - AMP Limited	
Craig Meller	Managing Director – AMP Financial Services	
Anthony Coleman	Non-Executive Director	
Diana Eilert	Non-Executive Director	Appointed: 10 August 2012
John Palmer	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Resigned: 31 March 2012
Peter Shergold	Non-Executive Director	

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 2012 was a profit after tax of $532m (2011: $680m).

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

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 AMP Life group, the results of its operations or its state of affairs, which is not already reflected in this report, other than the following:

- From 1 January 2013, revised life insurance APRA Prudential Standards relating to capital adequacy apply to AMP Life Limited. As at 31 December 2012, AMP Life Limited's capital adequacy multiple would have been 2.1 had these revised requirements applied (the capital adequacy multiple is a coverage ratio that expresses the total capital base divided by the prescribed capital amount). The equivalent multiple under the current standards at 31 December 2012 is 1.4. As at 1 January 2013, the total capital base of each AMP Life Limited statutory fund and its shareholders' fund exceed its prescribed capital amount under these revised standards.

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.

Directors' Report

for the year ended 31 December 2012

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.

Auditor's independence

The directors have obtained an independence declaration from the company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2012.

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.

C A Meller	C. Brenner
(signature)	*(signature)*
CRAIG MELLER	CATHERINE BRENNER
(name)	*(name)*
Director	Director
Sydney, 27 March 2013	Sydney, 27 March 2013

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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 2012, 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

Andrew Price
Partner
27 March 2013

Auditor's Independence Declaration

for the year ended 31 December 2012

AMP Life Limited Financial Report

Statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 $m	2011 $m
Income and expenses of policyholders and the shareholder[1]			
Life insurance premium and related revenue	17(a)	1,204	1,140
Fee revenue	3(a)	928	927
Other revenue	3(b)	4	2
Investment gains and (losses)	3(c)	8,582	543
Life insurance claims and related expenses	17(b)	(1,263)	(1,228)
Operating expenses	4(a)	(1,353)	(1,342)
Finance costs	4(b)	(33)	(66)
Change in policyholder liabilities			
- Life insurance contracts	17(e)	(557)	82
- Investment contracts		(6,318)	539
Gain on sale of controlled entity		-	40
Profit for the year before income tax		**1,194**	**637**
Income tax (expense) credit [1]	5(a)	(662)	43
Profit for the year		**532**	**680**
Other comprehensive income recognised in reserves			
Exchange differences on translation of foreign operations			
- exchange gains and (losses)		17	(1)
Total comprehensive income for the year		**549**	**679**

Footnote:

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

Statement of financial position

as at 31 December 2012

	Note	2012 $m	2011 $m
Assets			
Cash and cash equivalents		3,702	3,260
Receivables	6	851	904
Intercompany tax receivable		84	16
Other assets	7	4	4
Investments in financial assets measured at fair value through profit or loss	8(a)	68,449	62,382
Investment properties	9	1,420	1,781
Property, plant and equipment	10	23	22
Deferred tax assets	5(c)	511	567
Intangibles	11	517	517
Investments in controlled entities	8(b)	1,699	1,500
Total assets of policyholders and the shareholder		**77,260**	**70,953**
Liabilities			
Payables	12	830	710
Intercompany tax payable		136	184
Provisions	13	2	1
Other financial liabilities	8(c)	674	744
Borrowings	14	567	573
Deferred tax liabilities	5(d)	861	404
Life insurance contract liabilities	17(d)	17,944	17,345
Investment contract liabilities		53,064	47,799
Total liabilities of policyholders and the shareholder		**74,078**	**67,760**
Net assets of AMP Life Limited		**3,182**	**3,193**
Equity[1]			
Contributed equity	16	1,091	1,091
Reserves		(32)	(49)
Retained earnings		2,123	2,151
Total equity of AMP Life Limited		**3,182**	**3,193**

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 2012

	Contributed equity $m	Foreign currency translation reserve $m	Retained earnings $m	Total equity $m
2012				
Balance at the beginning of the year	1,091	(49)	2,151	3,193
Profit for the year	-	-	532	532
Other comprehensive income	-	17	-	17
Total comprehensive income	-	17	532	549
Dividends paid	-	-	(560)	(560)
Balance at the end of the year	**1,091**	**(32)**	**2,123**	**3,182**
2011				
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)
Balance at the end of the year	**1,091**	**(49)**	**2,151**	**3,193**

AMP Life Limited Financial Report

Statement of cash flows

for the year ended 31 December 2012

	Note	2012 $m	2011 $m
Cash flows from operating activities			
Cash receipts in the course of operations		13,807	12,702
Interest and other items of a similar nature received		682	746
Dividends and distributions received		818	1,546
Cash payments in the course of operations		(14,971)	(13,667)
Finance costs		(34)	(55)
Income tax paid		(265)	(306)
Cash flows from operating activities	21(a)	**37**	**966**
Cash flows from investing activities			
Net proceeds from sale of/(payments to acquire):			
- investment property		408	(14)
- investments in financial assets[1]		(131)	(2,092)
Cash flows (used in) / from investing activities		**277**	**(2,106)**
Cash flows from financing activities			
Proceeds from borrowings		-	2
Repayment of borrowings		-	(5)
Net movement in deposits from customers		(6)	5
Dividends paid	15	(560)	(430)
Cash flows used in financing activities		**(566)**	**(428)**
Net decrease in cash and cash equivalents		**(252)**	**(1,568)**
Cash and cash equivalents at beginning of the period		4,849	6,417
Cash and cash equivalents at the end of the period	21(b)	**4,597**	**4,849**

Footnote:

(1) 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 statutory funds, largely reflecting policyholder investment decisions during the period.

Notes to financial statements
for the year ended 31 December 2012

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AMP Life Limited ('AMP Life' or 'the company'), a company limited by shares, is incorporated and domiciled in Australia. This Financial Report includes financial statements for AMP Life 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*. AMP Life is a for-profit entity for the purposes of preparing financial statements. The Financial Report also complies with International Financial Reporting Standards as 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. Where necessary, comparative information has been reclassified to be consistent with current period disclosure.

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 2012 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 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 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 policy
Since 1 January 2012, AMP Life has adopted all Australian Accounting Standards which have become mandatory for adoption including:

- AASB 2010-8 *Income taxes (amendment) – Deferred tax: Recovery of Underlying Assets*
- AASB 2010-6 *Amendment to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- AASB 1054 *Australian Additional Disclosures*

Adoption of these standards has not had any material effect on the financial position or performance of the AMP Life.

Australian Accounting Standards issued but not yet effective
A number of new accounting standards and amendments have been issued but are 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:

- AASB 13 *Fair Value Measurement*. This standard centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards and removes some minor inconsistencies that previously existed between the guidance for determining fair value in these 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 AMP Life of adopting AASB 13 is not expected to be material.
- 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.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*. This standard amends the required disclosures in AASB 7 *Financial Instruments: Disclosures* to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. These amendments are mandatory for adoption by AMP Life in the year ending 31 December 2013. These changes are not expected to have a financial impact on AMP Life.
- AASB 2012 – 3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*. These amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of AASB 132 *Financial Instruments: Presentation* offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous. These amendments are mandatory for adoption by AMP Life in the year ending 31 December 2014. These changes are not expected to have a financial impact on AMP Life.
- AASB 9 *Financial Instruments*. This standard makes significant changes to the way 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. In subsequent phases, the AASB will address hedge accounting and impairment of financial assets. AASB 9 is mandatory for adoption by AMP Life in the year ending 31 December 2015. The financial impact to AMP Life of adopting AASB 9 has not yet been quantified.

Notes to financial statements

for the year ended 31 December 2012

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

(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 *policyholders*.

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 Australian 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 known as discretionary participating contracts, that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of AMP Life.

Under Australian 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 Australian 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, being the principal amount. 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.

(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 measured at nominal amounts due, less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full amount is no longer probable. Bad debts are written off as incurred. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

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

(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, the 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 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 s 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 shareholder 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 above.

(f) Associates

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 then 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 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(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 is set out in Note 9.

(h) Property, plant and equipment

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

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.

Notes to financial statements

for the year ended 31 December 2012

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT 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.

(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 measured at fair value through profit or loss are not subject to impairment testing. Other assets such as property, plant and equipment and intangible assets including goodwill are subject to impairment testing.

Intangible assets that have an indefinite useful life, such as goodwill, are not subject to amortisation but are tested at least annually for impairment. Other 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.

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.

(k) Taxes

Tax consolidation

AMP Limited and its wholly-owned Australian controlled entities which are Australian domiciled companies (including AMP Life) 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 entities 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, and
- 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. 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, and
- the impact of changes in the amounts of deferred tax assets and liabilities arising from changes in tax rates or in the manner in which these balances are expected to be realised.

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

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

Income tax for investment contracts and life insurance contracts business

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

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

Arrangements made with some superannuation funds result in AMP Life making payments to the relevant tax authorities 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.

Notes to financial statements

for the year ended 31 December 2012

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

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 relevant 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 payable 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, and
- 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. 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 finance costs.

(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 and movements in fair value are recognised in the Statement of comprehensive income.

(o) 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 exclusive of any transactions costs on the date on which a derivative contract is entered into and are subsequently remeasured to 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. Changes in the fair value of derivative financial instruments are recognised in the Statement of comprehensive income in the period in which they arise.

Notes to financial statements

for the year ended 31 December 2012

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 for financial assets 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 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 planned release of this margin is included in the movement in life insurance contract liabilities recognised in the Statement of comprehensive income.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected using best-estimate assumptions about the future. The liability is calculated as the net present value of these projected cash flows. When the benefits under a life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is based on the zero coupon government bond rate and a liquidity margin, which depends 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 the shareholder and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995* (the 'Life Act').

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to the shareholder 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 the shareholder.

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

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

(ii) Other MoS profits arising from discretionary participating business are allocated 80 per cent to policyholders and 20 per cent to the shareholder, with the following exceptions:
- the profit arising from New Zealand corporate superannuation business is apportioned such that the shareholder is allocated 15 per cent of the profit allocated to policyholders,
- the profit arising in respect of Preservation Superannuation Account business is allocated 92.5 per cent to policyholders and 7.5 per cent to the shareholder, and
- additional tax on taxable income to the shareholder in respect of Australian superannuation business is allocated to the shareholder only.

(iii) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in the statutory funds (excluding retained earnings dealt with in (i) above) are allocated to the shareholder.

Notes to financial statements

for the year ended 31 December 2012

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

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

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard for the objective in incurring that expense and the outcome achieved. The apportionment basis has been made in accordance with Australian Prudential Regulation Authority (APRA) Prudential 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 statutory funds are classified as operating expenses. See Note 1(y).

(r) Investment contract liabilities
An investment contract consists 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 accounting standards prevent those assets from being measured at fair value.

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 fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

(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 company 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.

Translation of foreign operation
Where the functional currency of a controlled entity is not the presentational 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, and
- 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 relationg 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 and ongoing investment management fees. See Note 1(v).

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

- 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 amounts 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 amount 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 are recognised in the Statement of comprehensive income on an accruals basis when AMP Life obtains control of the right to receive the revenue.

Net realised and unrealised gains and losses represent the change in value between the previously reported value and the amount received on sale of the asset as well as 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).

(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 financial statements

for the year ended 31 December 2012

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 Board of AMP Life is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary. 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 the fair value of backing assets, and does 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.

Notes to financial statements

for the year ended 31 December 2012

3. REVENUE AND INVESTMENT INCOME

	2012 $m	2011 $m
(a) Fee revenue		
Investment contract fees	858	854
Investment management fees	24	27
Service fees		
- related entities	46	46
Total fee revenue(1)	**928**	**927**
(b) Other revenue		
Other revenue	4	2
Total other revenue	**4**	**2**
(c) Investment gains and losses		
Interest (2)		
- related entities	156	139
- other entities	526	609
Dividends and distributions		
- related entities	1,730	2,693
- associated entities	183	229
- other entities	550	773
Rental income	161	163
Net realised and unrealised gains / (losses)(3)	5,247	(4,078)
Other investment income	29	15
Total investment gains and (losses)	**8,582**	**543**

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.

Notes to financial statements
for the year ended 31 December 2012

4. EXPENSES

	2012 $m	2011 $m
(a) Operating expenses		
Commission and advisory fee-for-service expense	(353)	(347)
Investment management expenses		
- related entities	(203)	(218)
- other entities	(7)	(12)
Fees and commission expenses[1]	**(563)**	**(577)**
Occupancy and property related expenses	8	9
Direct property expenses[2]	(52)	(50)
Service fee expense		
- related entities	(668)	(652)
Professional fees	(1)	(2)
Depreciation of property, plant and equipment	(9)	(9)
Other expenses	(68)	(61)
Other operating expenses	**(790)**	**(765)**
Total operating expenses	**(1,353)**	**(1,342)**
(b) Finance costs		
Interest expense on borrowings		
- other entities	(29)	(58)
Other finance costs	(4)	(8)
Total finance costs	**(33)**	**(66)**

Footnote:

(1) Fee and commission expenses include fee expenses from trust and other fiduciary activities including 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.

Notes to financial statements

for the year ended 31 December 2012

5. INCOME TAX

	2012 $m	2011 $m
(a) Analysis of income tax credit (expense)		
Current tax (expense) credit	(177)	(315)
Increase (decrease) in deferred tax assets	(63)	224
(Increase) decrease in deferred tax liabilities	(430)	133
Over/(under) provided in previous years including amounts attributable to policyholders	8	1
Income tax (expense) credit	**(662)**	**43**

(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 the shareholder as well as income tax attributable to policyholders. In respect of income tax expense attributable to the shareholder, the tax rate which applies is 30 per cent (2011: 30 per cent) in Australia and 28 per cent (2011: 28 per cent) in New Zealand.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15 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 (2011: 28 per cent).

	2012 $m	2011 $m
Profit before income tax	1,194	637
Policyholder tax credit / (expense) recognised as part of the change in policyholder liabilities in determining profit before income tax	(447)	312
Profit before income tax excluding policyholder tax	**747**	**949**
Prima facie tax at the rate of 30%	(224)	(285)
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductibles/taxables in calculating taxable income:		
Shareholder impact of par-business tax treatment	1	21
Non-deductible expenses	(1)	(5)
Non-taxable income	7	19
Tax offsets and credits	4	4
Other items	(5)	(24)
(Under)/over provided in previous years after excluding amounts attributable to policyholders	2	(1)
Differences in overseas tax rate	1	2
Income tax (expense) credit attributable to shareholders	(215)	(269)
Income tax (expense) credit attributable to policyholders	(447)	312
Income tax (expense) credit per Statement of comprehensive income	**(662)**	**43**

Notes to financial statements

for the year ended 31 December 2012

5. INCOME TAX (CONTINUED)

	2012 $m	2011 $m
(c) Analysis of deferred tax assets		
Expenses deductible and income recognisable in future years	79	78
Unrealised investment losses	28	102
Losses available for offset against future taxable income	387	366
Other	17	21
Total deferred tax assets	**511**	**567**

	2012 $m	2011 $m
(d) Analysis of deferred tax liabilities		
Unrealised investment gains	661	255
Deferred tax on New Zealand life insurance policy liabilities	128	120
Unrealised movements on borrowings and derivatives	35	24
Other	37	5
Total deferred tax liabilities	**861**	**404**

6. RECEIVABLES

	2012 $m	2011 $m
Investment income receivable	135	123
Investment sales and margin accounts receivable	298	326
Life insurance contract premiums receivable	270	277
Reinsurance and other recoveries receivable	10	10
Reinsurers' share of life insurance contract liabilities	119	98
Other receivables		
- related entities	7	19
- associated entities	-	2
- other entities	12	49
Total receivables[(1)]	**851**	**904**

Footnotes:
(1) $81m (2011: $86m) of total receivables is expected to be recovered more than 12 months from reporting date.

7. OTHER ASSETS

	2012 $m	2011 $m
Prepayments	4	4
Total other assets[(1)]	**4**	**4**

Footnotes:
(1) All other assets are expected to be recovered within 12 months from reporting date.

Notes to financial statements

for the year ended 31 December 2012

8. INVESTMENT IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	2012 $m	2011 $m
(a) Investments in financial assets measured at fair value through profit or loss		
Equity securities and listed managed investment schemes	11,117	9,798
Debt securities[1]	9,300	9,468
Investments in unlisted managed investment schemes	47,527	42,456
Derivative financial assets	366	535
Other financial assets[2]	139	125
Total investments in financial assets measured at fair value through profit or loss	**68,449**	**62,382**
(b) Investments in controlled entities		
At fair value	1,658	1,464
At cost	41	36
Total investments in controlled entities	**1,699**	**1,500**
(c) Other financial liabilities		
Derivative financial liabilities	126	107
Collateral deposits held[3]	548	637
Total other financial liabilities	**674**	**744**

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.

Notes to financial statements

for the year ended 31 December 2012

9. INVESTMENT PROPERTIES

	2012 $m	2011 $m
Investment property[1]		
Directly held	1,420	1,781
Total investment property	**1,420**	**1,781**

	2012 $m	2011 $m
Movements in investment property		
Balance at the beginning of the year	1,781	1,703
Additions		
- subsequent expenditure recognised in carrying amount	10	14
Disposals	(418)	-
Net gains from fair value adjustments	47	64
Balance at the end of the year	**1,420**	**1,781**

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.

	2012	2011
Primary assumptions used in valuing investment property		
Capitalisation rates	6.00% - 10.75%	6.00% - 10.25%
Market determined, risk adjusted discount rate	8.75% - 11.50%	9.00% - 13.00%

10. PROPERTY, PLANT AND EQUIPMENT

2012	Leasehold Improvements $m	Plant & Equipment $m	Total $m
Property, plant and equipment			
Gross carrying amount	69	71	140
Less: accumulated depreciation and impairment losses	(59)	(58)	(117)
Property, plant and equipment at written down value	**10**	**13**	**23**
Movements in property, plant and equipment			
Balance at the beginning of the year	9	13	22
Additions			
- through direct acquisitions	5	5	10
Depreciation expense for the year	(4)	(5)	(9)
Balance at the end of the year	**10**	**13**	**23**

2011	Leasehold Improvements $m	Plant & Equipment $m	Total $m
Property, plant and equipment			
Gross carrying amount	64	66	130
Less: accumulated depreciation and impairment losses	(55)	(53)	(108)
Property, plant and equipment at written down value	**9**	**13**	**22**
Movements in property, plant and equipment			
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)
Balance at the end of the year	**9**	**13**	**22**

Notes to financial statements

for the year ended 31 December 2012

11. INTANGIBLES

	2012 $m	2011 $m
Intangibles		
Gross carrying amount	517	517
Less: accumulated amortisation and / or impairment losses	-	-
Intangibles at written down value	**517**	**517**

Impairment testing of goodwill

Goodwill of $517m (2011: $517m) 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 future 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 Life. 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 recoverable amount for each cash generating unit has been determined using the "fair value less costs to sell" basis. The recoverable amount is determined considering a combination of estimated embedded value and value of future new business, which are generally taken as features of a Life insurance business which, taken together, would be an estimate of fair value. Embedded value is a calculation which represents the economic value of the shareholder capital in the business and the future profits expected to emerge from the business currently in-force expressed in today's dollars.

The key assumptions applied in estimating the embedded value are: mortality, morbidity, discontinuance rates, maintenance unit costs, future rates of supportable bonus for participating business, franking credits, risk discount rates, investment returns and inflation rates. Risk discount rates are based on the yield on long-term government bonds plus a discount margin of 3%. With the exception of the revised life insurance capital standards, the continuation of the existing tax and regulatory framework is assumed. Assumptions are generally consistent with the best estimate assumptions used in calculating policy liabilities for AMP Life. A more detailed description of these assumptions and their 31 December 2012 values can be found in Note 17 of this Financial Report. As all relevant business is projected for the embedded value, the description of the assumptions in Note 17 applies even where that business is not valued by projection methods for profit reporting.

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.

Notes to financial statements

for the year ended 31 December 2012

12. PAYABLES

	2012 $m	2011 $m
Payables		
Investment purchases and margin accounts payable	53	44
Life insurance and investment contracts in process of settlement	206	216
Accrued expenses	21	21
Interest payable		
- other entities	1	2
Other payables		
- related entities	83	57
- other entities	466	370
Total payables(1)	**830**	**710**

Footnote:
(1) $830m (2011: $710m) of payables are expected to be settled within 12 months from reporting date.

13. PROVISIONS

	2012 $m	2011 $m
Provisions		
Systems and other project expenditures	2	1
Total provisions(1)	**2**	**1**

	2012 $m	2011 $m
Movements in provisions		
Balance at the beginning of the year	1	7
Additional provisions made during the year	9	6
Unused amounts reversed during the year	(1)	(2)
Provisions used during the year	(7)	(10)
Balance at the end of the year	**2**	**1**

Footnotes:
(1) $2m (2011: $1m) of provisions are expected to be settled within 12 months from reporting date.

Notes to financial statements

for the year ended 31 December 2012

14. BORROWINGS

	2012 $m	2011 $m
Borrowings		
Deposits		
- other entities	121	127
Other borrowings		
- related parties	446	446
Total borrowings(1)	**567**	**573**

Footnote:
(1) $567m (2011: $573m) of borrowings are expected to be settled within 12 months from reporting date.

15. DIVIDENDS

	2012 $m	2011 $m
Dividends paid during the year		
Unfranked dividend of $48.97 (31 December 2011: $37.74) per ordinary share	(560)	(430)
Total dividends paid	**(560)**	**(430)**
Final dividends proposed but not recognised		
2012: Unfranked dividend of $33.96 per ordinary share	387	-

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.

	2012 $m	2011 $m
Contributed equity		
Balance at the beginning of the year	1,091	1,091
11,393,668 (31 December 2011: 11,393,668) ordinary shares fully paid		
Total balance of contributed equity at the end of the year	**1,091**	**1,091**

Notes to financial statements

for the year ended 31 December 2012

17. LIFE INSURANCE CONTRACTS

	2012 $m	2011 $m
(a) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premiums received and receivable	2,141	1,795
Less: component recognised as a change in life insurance contract liabilities	(981)	(693)
Life insurance contract premium revenue[1]	1,160	1,102
Reinsurance recoveries	44	38
Total life insurance contract premium and related revenue	**1,204**	**1,140**
(b) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	(2,243)	(2,245)
Less: component recognised as a change in life insurance contract liabilities	1,027	1,059
Life insurance contract claims expense	(1,216)	(1,186)
Outwards reinsurance expense	(47)	(42)
Total life insurance contract claims and related expenses	**(1,263)**	**(1,228)**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(53)	(58)
- Other expenses	(88)	(88)
Life insurance contract maintenance expenses		
- Commission	(97)	(95)
- Other expenses	(295)	(292)
Investment management expenses	(40)	(41)

Footnote:
(1) Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.

17. LIFE INSURANCE CONTRACTS (CONTINUED)

	2012 $m	2011 $m
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- value of future life insurance contract benefits	12,701	12,339
- value of future expenses	3,184	3,132
- value of future premiums	(11,944)	(11,479)
Value of future profits		
- life insurance contract holder bonuses	1,874	1,657
- shareholders' profit margins	2,590	2,554
Total life insurance contract liabilities determined using projection method	**8,405**	**8,203**
Life insurance contract liabilities determined using accumulation method		
Best estimate liability		
- Value of future life insurance contract benefits	7,854	7,447
- Value of future acquisition expenses	(6)	(7)
Total life insurance contract liabilities determined using accumulation method	**7,848**	**7,440**
Value of declared bonus	198	338
Unvested policyholder benefits liabilities[1]	1,374	1,266
Total life insurance contract liabilities before reinsurance	**17,825**	**17,247**
Add: Reinsurers' share of life insurance contract liabilities	119	98
Total life insurance contract liabilities	**17,944**	**17,345**

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 policyholder benefits liabilities and is included within life insurance contract liabilities even though it is yet to be vested as specific policyholder entitlements.

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for the year ended 31 December 2012

17. LIFE INSURANCE CONTRACTS (CONTINUED)

	Note	2012 $m	2011 $m
(e) Reconciliation of changes in life insurance contract liabilities			
Total life insurance contract liabilities at the beginning of the year		17,345	17,762
Change in life insurance contract liabilities recognised in the statement of comprehensive income		557	(82)
Premiums recognised as an increase in life insurance contract liabilities	17(a)	981	693
Claims recognised as a decrease in life insurance contract liabilities	17(b)	(1,027)	(1,059)
Change in reinsurers' share of life insurance contract liabilities		21	32
Foreign exchange adjustment		67	(1)
Total life insurance contract liabilities at the end of the year	17(d)	**17,944**	**17,345**

(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(q) 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 follows:

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

Notes to financial statements

for the year ended 31 December 2012

17. LIFE INSURANCE CONTRACTS (CONTINUED)

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.

Business Type		Basis[1]	31 December 2012		31 December 2011	
			Australia	New Zealand	Australia	New Zealand
Retail risk (other than income benefit open claims)		Zero coupon government bond yield curve	2.6% - 4.4%	2.5% - 4.1%	3.2% - 4.6%	2.5% - 4.1%
Retail risk and Group risk (income benefit open claims)		Zero coupon government bond yield curve (including liquidity premium)	2.9% - 4.7%	2.8% - 4.4%	3.8% - 5.2%	2.8% - 4.4%
Life annuities	Non-CPI	Zero coupon government bond yield curve (including liquidity premium)	3.0% - 4.8%	2.9% - 4.5%	3.8% - 5.1%	2.8% - 4.8%
	CPI	Commonwealth Indexed bond yield curve (including liquidity premium)	0.8% - 1.8%	1.0% - 2.0%	1.5% - 2.2%	1.3%

Footnote:

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

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

	10 Year Government Bonds	Risk Premiums				
		Local equities	**International equities**	**Property**	**Fixed Interest**	**Cash**
Australia						
31 December 2012	3.3%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2011	3.7%	4.5%	3.5%	2.5%	0.8%	(0.5%)
New Zealand						
31 December 2012	3.6%	4.5%	3.5%	2.5%	0.8%	(0.5%)
31 December 2011	3.8%	4.5%	3.5%	2.5%	0.8%	(0.5%)

The risk premium for local equities includes allowance for imputation credits. The risk premium 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
Australia				
31 December 2012	30%	11%	39%	20%
31 December 2011	30%	11%	39%	20%
New Zealand				
31 December 2012	40%	17%	37%	6%
31 December 2011	40%	17%	37%	6%

The asset mix in the table above includes both conventional and investment account business.

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 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 shareholder 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 capital adequacy.

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

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for the year ended 31 December 2012

17. LIFE INSURANCE CONTRACTS (CONTINUED)

(iii) Future participating benefits (continued)

Typical supportable bonus rates on major product lines are as follows (31 December 2011 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	0.4% - 0.9% (0.2% - 0.8%)	0.7% - 0.9% (0.4% - 0.8%)
New Zealand	0.4% - 0.7% (0.3% - 0.5%)	0.4% - 0.7% (0.3% - 0.5%)

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

Crediting rates (investment account)	
Australia	2.2% - 4.6% (1.6% - 3.7%)
New Zealand	2.9% - 3.1% (2.4% - 2.9%)

(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 group. Unit costs vary by product line and class of business based on an apportionment that is supported by expense analyses.

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

(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 2012	2.7% CPI, 3.0% Expense	2.5% CPI, 3.0% Expense
31 December 2011	2.6% CPI, 3.0% Expense	2.5% CPI, 3.0% Expense

(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 historical experience. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration, premium structure, smoker status, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across AMP Life are extremely diverse.

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

	31 December 2012		31 December 2011	
Business type	**Australia**	**New Zealand**	**Australia**	**New Zealand**
Conventional	2.1% - 3.0%	1.3% - 2.5%	2.1% - 3.0%	1.3% - 2.5%
Retail risk (lump sum)	11.9% - 22.0%	10.5% - 12.0%	9.0% - 20.0%	10.5% - 12.0%
Retail risk (income benefit)	8.0% - 20.0%	7.0% - 12.0%	10.0% - 11.0%	7.0% - 12.0%
Flexible Lifetime Super (FLS) risk business (ultimate rate)	8.8% - 22.7%	n/a	7.5% - 13.0%	n/a

Voluntary discontinuance assumptions have increased from those used at 31 December 2011 for retail risk.

17. LIFE INSURANCE CONTRACTS (CONTINUED)

(viii) Surrender values

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

(ix) Mortality and morbidity

Standard mortality tables, based on national or industry wide data, are used. These are then adjusted by factors that take account of AMP Life's own experience.

Rates of mortality assumed at 31 December 2012 for AMP Life are unchanged from those assumed at 31 December 2011 in Australia and New Zealand, except for:

- Australian and New Zealand conventional business – added an adjustment to allow for future mortality improvements
- Term (Retail risk lump sum) in Australia has reduced

Typical mortality assumptions, in aggregate, are as follows:

	Conventional - % of IA95-97[1]		Term - % of IA95-97		FLS Risk - % of IA95-97	
Risk products	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
Australia	67.5%	67.5%	60%	60%	63%	63%
New Zealand	73%	73%	63%	63%	63%	63%

Footnote:

(1) Base IA95-97 table modified for future mortality improvements

Annuities	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. Rates have changed for Australia from those at 31 December 2011, resulting in a higher incidence rate for future claims overall and a lower rate for termination of claims.

Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates - % of IAD89-93	Termination rates (ultimate) - % of IAD89-93
Australia	52% - 113%	63% - 94%
New Zealand	60%	54% - 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 recent claims experience. Trauma assumptions at 31 December 2012 have increased from those used at 31 December 2011.

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.

17. LIFE INSURANCE CONTRACTS (CONTINUED)

(x) Impact of changes in assumptions

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

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

The impact on future profit margins of changes in assumptions from 31 December 2011 to 31 December 2012 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 Shareholder' profit & equity $m
Non-market related changes to discount rates	(21)	-	-
Mortality and morbidity	(38)	-	-
Discontinuance rates	(211)	-	-
Maintenance expenses	35	-	-
Other assumptions[1]	56	-	-

Footnote:

(1) Other assumptions changes include the impact of product and 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.

		Change in life insurance contract liabilities		Change in shareholder profit after income tax, and equity	
Variable	Change in variable	Gross of reinsurance $m	Net of reinsurance $m	Gross of reinsurance $m	Net of reinsurance $m
Mortality	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	-	-	-	-

Notes to financial statements

for the year ended 31 December 2012

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 risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are 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+*.

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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
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)	These policies provide guaranteed benefits, which are paid on the 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.
Life annuity contracts	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.
Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)	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.	Benefits arising from the discretionary bonuses are based on the performance of a specified pool of contracts and the assets supporting these contracts.	Market earning rates on assets backing the liabilities, lapses, expenses, and mortality.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	Payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and the 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.

(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
2012	784	2,022	6,590	9,396
2011	747	2,024	6,184	8,955

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

	2012 $m	2011 $m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	362	374
- Profits (losses) arising from difference between actual and assumed experience	22	106
- Capitalised (losses) reversals	-	1
Profit related to life insurance and investment contract liabilities	**384**	**481**
Attributable to:		
- Life insurance contracts	262	343
- Investment contracts	122	138
Investment earnings on assets in excess of life insurance and investment contract liabilities	**90**	**101**

(b) Restrictions on assets in statutory funds

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

The Life Act requires the life insurance business of AMP Life to be conducted within life statutory funds.

AMP Life has three statutory funds as set out below:

No. 1 fund	Australia	Capital guaranteed business (whole of life, endowment, investment account, retail and group risk, and immediate annuities).
	New Zealand	All business (whole of life, endowment, investment account, retail and group risk, investment-linked and immediate annuities).
No. 2 fund	Australia	Investment-linked superannuation business (individual and group investment-linked and deferred annuities).
No. 3 fund	Australia	Investment-linked ordinary business.

Investments held in the life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions provided solvency, capital adequacy and other regulatory requirements are met. See further details about solvency and capital adequacy in Note 18(d).

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

	2012 $m	2011 $m
(c) Capital guarantees		
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,530	13,493
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1,168	1,166
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	116	124

(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 2012 were 53% (31 December 2011: 62%).

Capital adequacy requirements

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for each life entity to be allowed to make distributions to its shareholder 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 2012 were 33% (31 December 2011: 34%).

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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 APRA Prudential 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:

2012		No 1 Statutory fund $m	No 2 Statutory fund $m	No 3 Statutory fund $m	Total Statutory Funds $m
Solvency requirement					
Net minimum termination value (MTV)		19,715	48,484	607	68,806
Adjusted other liabilities		2,378	1,524	26	3,928
Solvency reserve	B	2,518	169	2	2,689
Total solvency requirement	**A**	**24,611**	**50,177**	**635**	**75,423**
Assets available for solvency					
Net assets		1,824	207	8	2,039
Liability for unvested policy owner benefits		1,374	-	-	1,374
Excess of net policy liabilities (including policy owner bonuses) over MTV		697	11	-	708
Total assets available for solvency	**C**	**3,895**	**218**	**8**	**4,121**
Solvency Reserve %	B/(A-B)*100	11.4%	0.3%	0.3%	3.7%
Coverage of Solvency Reserve	C/B	1.5	1.3	4.4	1.5

2011		No 1 Statutory fund $m	No 2 Statutory fund $m	No 3 Statutory fund $m	Total Statutory Funds $m
Solvency requirement					
Net minimum termination value (MTV)		19,260	43,528	620	63,408
Adjusted Other liabilities		2,332	1,291	44	3,667
Solvency reserve	B	2,145	145	1	2,291
Total solvency requirement	**A**	**23,737**	**44,964**	**665**	**69,366**
Assets available for solvency					
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
Total assets available for solvency	**C**	**3,368**	**338**	**5**	**3,711**
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

Notes to 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 which may be recovered or settled within 12 months after the reporting date
Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately $10,918 million (2011: $10,149 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.

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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

2012	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Insurance premium and related revenue	1,204	-	-	-	1,204
Fee revenue	47	824	11	46	928
Other revenue	4	-	-	-	4
Investment gains and (losses)	2,069	6,399	86	28	8,582
Insurance claims and related expenses	(1,263)	-	-	-	(1,263)
Operating expenses	(629)	(716)	(7)	(1)	(1,353)
Finance costs	(32)	(1)	-	-	(33)
Change in policyholder liabilities					
- Life insurance contracts	(557)	-	-	-	(557)
- Investment contracts	(193)	(6,061)	(64)	-	(6,318)
Profit / (loss) before income tax	**650**	**445**	**26**	**73**	**1,194**
Income tax (expense) / credit	(320)	(305)	(22)	(15)	(662)
Net profit for the year	**330**	**140**	**4**	**58**	**532**

2011	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
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 contracts	82	-	-	-	82
- Investment contracts	(179)	710	8	-	539
Gain on sale of a controlled entity	-	-	-	40	40
Profit before income tax	**764**	**(236)**	**(5)**	**114**	**637**
Income tax (expense) / credit	(327)	376	10	(16)	43
Net profit for the year	**437**	**140**	**5**	**98**	**680**

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for the year ended 31 December 2012

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

2012	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Elimina-tions $m	Total $m
Assets						
Investments in financial assets measured at fair value through profit or loss	19,813	47,864	624	186	(38)	68,449
Investment property	132	1,288	-	-	-	1,420
Investments in controlled entities	1,435	220	3	41	-	1,699
Other assets	4,312	440	12	928	-	5,692
Total assets of policyholders and the shareholder	**25,692**	**49,812**	**639**	**1,155**	**(38)**	**77,260**
Liabilities						
Life insurance contract liabilities	17,944	-	-	-	-	17,944
Investment contract liabilities	3,962	48,495	607	-	-	53,064
Other liabilities	1,962	1,110	24	12	(38)	3,070
Total liabilities of policyholders and the shareholder	**23,868**	**49,605**	**631**	**12**	**(38)**	**74,078**
Net assets of AMP Life Limited	**1,824**	**207**	**8**	**1,143**	**-**	**3,182**
Equity						
Contributed equity	303	208	-	580	-	1,091
Reserves	(18)	-	-	(14)	-	(32)
Retained earnings	1,539	(1)	8	577	-	2,123
Total equity of AMP Life Limited	**1,824**	**207**	**8**	**1,143**	**-**	**3,182**

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for the year ended 31 December 2012

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)

2011	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Elimin-ations $m	Total $m
Assets						
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
Total assets of policyholders and the shareholder	**24,875**	**44,659**	**670**	**1,129**	**(380)**	**70,953**
Liabilities						
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
Total liabilities of policyholders and the shareholder	**23,135**	**44,333**	**665**	**7**	**(380)**	**67,760**
Net assets of AMP Life Limited	**1,740**	**326**	**5**	**1,122**	**-**	**3,193**
Equity						
Contributed equity	303	285	-	503	-	1,091
Reserves	(34)	-	-	(15)	-	(49)
Retained earnings	1,471	41	5	634	-	2,151
Total equity of AMP Life Limited	**1,740**	**326**	**5**	**1,122**	**-**	**3,193**

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for the year ended 31 December 2012

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

2012	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Total $m
Opening retained earnings	1,471	41	5	634	2,151
Net profit	330	140	4	58	532
Transfers between statutory and shareholders' funds	(262)	(182)	(1)	445	-
Dividends paid	-	-	-	(560)	(560)
Closing retained earnings	**1,539**	**(1)**	**8**	**577**	**2,123**

2011	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Total $m
Opening retained earnings	1,206	54	5	636	1,901
Net profit	437	140	5	98	680
Transfers between statutory and shareholders' funds	(172)	(153)	(5)	330	-
Dividends paid	-	-	-	(430)	(430)
Closing retained earnings	**1,471**	**41**	**5**	**634**	**2,151**

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

2012	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Total $m
Opening contributed equity	303	285	-	503	1,091
Transfers between statutory and shareholders' funds	-	(77)	-	77	-
Closing contributed equity	**303**	**208**	**-**	**580**	**1,091**

2011	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holders' Fund $m	Total $m
Opening contributed equity	303	285	-	503	1,091
Transfers between statutory and shareholders' funds	-	-	-	-	-
Closing contributed equity	**303**	**285**	**-**	**503**	**1,091**

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for the year ended 31 December 2012

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(v) Income statement by non-investment linked and investment linked

2012	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Share-holders' Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Insurance premium and related revenue	1,204	-	1,204	-	1,204
Fee revenue	46	836	882	46	928
Other revenue	4	-	4	-	4
Investment gains and (losses)	2,056	6,498	8,554	28	8,582
Insurance claims and related expenses	(1,263)	-	(1,263)	-	(1,263)
Operating expenses	(628)	(724)	(1,352)	(1)	(1,353)
Finance costs	(32)	(1)	(33)	-	(33)
Change in policyholder liabilities					
- Life insurance contracts	(557)	-	(557)	-	(557)
- Investment contracts	(182)	(6,136)	(6,318)	-	(6,318)
Profit / (loss) before income tax	**648**	**473**	**1,121**	**73**	**1,194**
Income tax (expense) / credit	(318)	(329)	(647)	(15)	(662)
Net profit for the year	**330**	**144**	**474**	**58**	**532**

2011	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Share-holders' Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Insurance premium and related revenue	1,140	-	1,140	-	1,140
Fee revenue	41	840	881	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 contracts	82	-	82	-	82
- Investment contracts	(179)	718	539	-	539
Gain on sale of a controlled entity	-	-	-	40	40
Profit before income tax	**763**	**(240)**	**523**	**114**	**637**
Income tax (expense) / credit	(326)	385	59	(16)	43
Net profit for the year	**437**	**145**	**582**	**98**	**680**

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for the year ended 31 December 2012

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated Information (continued)

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

2012	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Share-holders' Fund $m	Elim $m	Total $m
Assets						
Investments in financial assets measured at fair value through profit or loss	19,713	48,588	68,301	186	(38)	68,449
Investment property	132	1,288	1,420	-	-	1,420
Investments in controlled entities	1,365	293	1,658	41	-	1,699
Other assets	4,293	471	4,764	928	-	5,692
Total assets of policyholders and the shareholder	**25,503**	**50,640**	**76,143**	**1,155**	**(38)**	**77,260**
Liabilities						
Life insurance contract liabilities	17,944	-	17,944	-	-	17,944
Investment contract liabilities	3,874	49,190	53,064	-	-	53,064
Other liabilities	1,861	1,235	3,096	12	(38)	3,070
Total liabilities of policyholders and the shareholder	**23,679**	**50,425**	**74,104**	**12**	**(38)**	**74,078**
Net assets of AMP Life Limited	**1,824**	**215**	**2,039**	**1,143**	**-**	**3,182**
Equity						
Contributed equity	303	208	511	580	-	1,091
Reserves	(14)	(4)	(18)	(14)	-	(32)
Retained earnings	1,535	11	1,546	577	-	2,123
Total equity of AMP Life Limited	**1,824**	**215**	**2,039**	**1,143**	**-**	**3,182**

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

2011	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Share-holders' Fund $m	Elim $m	Total $m
Assets						
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
Total assets of policyholders and the shareholder	**24,706**	**45,498**	**70,204**	**1,129**	**(380)**	**70,953**
Liabilities						
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
Total liabilities of policyholders and the shareholder	**22,965**	**45,168**	**68,133**	**7**	**(380)**	**67,760**
Net assets of AMP Life Limited	**1,741**	**330**	**2,071**	**1,122**	**-**	**3,193**
Equity						
Contributed equity	303	285	588	503	-	1,091
Reserves	(32)	(2)	(34)	(15)	-	(49)
Retained earnings	1,470	47	1,517	634	-	2,151
Total equity of AMP Life Limited	**1,741**	**330**	**2,071**	**1,122**	-	**3,193**

18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

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

2012	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Shareholders' Fund $m	Total $m
Opening retained earnings	1,470	47	1,517	634	2,151
Net profit	330	144	474	58	532
Transfers between statutory and shareholders' funds	(259)	(186)	(445)	445	-
Transfers between statutory funds	(6)	6	-	-	-
Dividends paid	-	-	-	(560)	(560)
Closing retained earnings	**1,535**	**11**	**1,546**	**577**	**2,123**

2011	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Shareholders' Fund $m	Total $m
Opening retained earnings	1,203	62	1,265	636	1,901
Net profit	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)
Closing retained earnings	**1,470**	**47**	**1,517**	**634**	**2,151**

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

2012	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Shareholders' Fund $m	Total $m
Opening contributed equity	303	285	588	503	1,091
Transfers between statutory and shareholders' funds		(77)	(77)	77	-
Closing contributed equity	**303**	**208**	**511**	**580**	**1,091**

2011	Non-Investment Linked $m	Investment Linked $m	Total Statutory Funds $m	Shareholders' Fund $m	Total $m
Opening contributed equity	303	285	588	503	1,091
Transfers between statutory and shareholders' funds	-	-	-	-	-
Closing contributed equity	**303**	**285**	**588**	**503**	**1,091**

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

AMP Life's financial 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. Below is a summary of the AMP group's financial risk management policies which may impact AMP Life.

Financial Risk Management
The AMP Limited Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and is operating effectively. This includes setting the financial risk appetite and approval of the AMP group Financial Risk Management Framework (FRM Framework), its sub-policies, the shareholder capital investment strategy, capital and financing plans.

The principal objective of AMP's financial risk management is to establish a robust structure for identifying, assessing, managing, quantifying, reporting and escalating financial risks. The FRM Framework is consistent with both the AMP group Risk Appetite Statement, which outlines AMP's appetite, to take certain risks in order to grow its profits and the AMP Enterprise Risk Management Policy which establishes the principles, requirements, roles and responsibilities for the management of all categories of risk across AMP.

The FRM Framework includes delegations, roles and responsibilities, escalations and reporting, as well as outlining AMP group's FRM objectives. 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 them.

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 both AMP Life and National Mutual Life Association of Australasia (NMLA). 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 the capital position to Group ALCO, the AMP Limited Audit Committee and the Board, monitoring compliance with the FRM Framework, and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the Board.

The Audit Committee ensures the existence of effective FRM policies and procedures, and is responsible for the oversight of the execution of the FRM Framework. The AMP Life and NMLA Audit Committees are delegated responsibility for the elements specific to their respective businesses. Internal Audit reviews the design and operational effectiveness of the FRM Framework as part of its ongoing audit cycle.

Operating entities are required to comply with the Board approved risk appetite and are also responsible for approving policyholder asset and liability strategies.

The appointed actuaries provide oversight to the AMP life and NMLA Boards, Audit Committees, Group ALCO, AFS ALCO, as well as externally to APRA, on the financial condition of AMP Life and NMLA. The appointed actuaries are also responsible for giving advice to AMP Life and NMLA on the distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. The Life Insurance Act (Life Act) also imposes obligations on an Appointed Actuaries to bring to the attention of AMP life and NMLA, or in some circumstances, APRA, any matter that the appointed actuaries believes requires action to avoid prejudice to the interests of policyholders.

Information about the capital management activities within the AMP group, including the relationship with regulatory requirements on the regulated entities, 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 the AMP group 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 has equity market exposure in its businesses (for example through fees on Assets Under Management).

Financial risks arising in the AMP group include market risk (investment risk, interest rate risk, foreign exchange 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 of assets and liabilities, 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 group arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, and interest bearing investments.

(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.

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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 group'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 the AMP group. Management of those risks is decentralised according to the activity. Details are as follows:

- *AMP Life*– As discussed in Note 1(b), AMP Life conduct their 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.

  The interest rate risk of AMP Life which impacts the shareholder 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 the shareholder.

  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 and NMLA are 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 manage 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 shifts. 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 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 AMP Life.

	2012		2011	
Change in variables	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
+ 100 basis points	(49)	(49)	(22)	(22)
- 100 basis points	53	53	43	43

(ii) Currency risk
Currency risk is the risk of an impact on AMP group's profit after tax and equity from movements in foreign exchange rates. Changes in value would occur in respect of translating the AMP group'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).

Other than where the impact would be immaterial, corporate debt is typically converted to Australian dollars through cross-currency swaps. Individual investment assets in shareholder capital (excluding the international equities portfolio attributable to the shareholder within the life Statutory Fund No.1 fund) and in the Seed Pool are hedged, and expected foreign currency receipts and payments are hedged once the value and timing of the expected cash flow is known.

Subject to Group ALCO approval, Group Treasury may allow for natural hedging of foreign exchange risk through unhedged foreign currency borrowings, or enter into discretionary foreign exchange transactions to hedge enterprise-wide exposures.

AMP group does not hedge the capital invested in overseas operations (other than foreign Seed Pool investments), thereby accepting the foreign currency translation risk on invested capital.

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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 per cent is determined considering the range of currency exposures in the AMP Life.

	2012		2011	
Change in variables	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	(1)	(1)
10% appreciation of AUD	(1)	(1)	1	1

(iii) Equity price risk
Equity price risk is the risk of an impact on AMP group's profit after tax and equity from movements in equity prices. AMP Life measures equity securities at fair value through profit or loss. Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

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 group's investment linked business is not included. A sensitivity level of 10 per cent is determined considering the widely spread portfolios held by the AMP group and the range of movements in equity markets for the periods.

	2012		2011	
Change in variables	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	12	12	8	11
10% increase in International equities	9	9	(1)	-
10% decrease in Australian equities	(8)	(8)	(16)	(18)
10% decrease in International equities	(1)	(1)	1	-

(c) Liquidity and refinancing risk
Liquidity risk is the risk that the AMP group 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 group 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 Limited Board.

Financiers of loans owing by controlled entities of the life statutory funds do not have legal recourse beyond the operating subsidiary borrower and there is no direct effect on any other AMP group debt.

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(1)

	Up to 1 Year or no term $m	1 to 5 Years $m	More than 5 Years $m	Other(2) $m	Total $m
2012					
Payables	829	1	-	-	830
Borrowings	567	-	-	-	567
Investment contract liabilities(2)	1,573	1,063	1,654	49,190	53,480
Total undiscounted financial liabilities and off balalnce sheet items(3)	**2,969**	**1,064**	**1,654**	**49,190**	**54,877**
2011					
Payables	710	-	-	-	710
Borrowings	573	-	-	-	573
Investment contract liabilities(2)	1,247	1,111	1,685	44,246	48,289
Total undiscounted financial liabilities and off balance sheet items(3)	**2,530**	**1,111**	**1,685**	**44,246**	**49,572**

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 $49,190m (2011:$44,246m) 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 the 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 Audit Committees through weekly and quarterly FRM reports.

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 on a Group basis, by aggregating risk from credit exposures taken in business units, as detailed below.

- *AMP Life* - Credit risk on the invested fixed income portfolios in the AMP Life statutory funds is managed by the AMP Capital Risk and Compliance Committee (AMP Capital 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 group's portfolio.

Compliance is monitored and exposures and breaches are reported to senior management and the AMP Audit Committee through the weekly and quarterly FRM Report.

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(ii) Exposure to credit risk
The exposures on interest bearing securities and cash equivalents which impact the AMP group's capital position are managed by AMP Treasury within limits set by the AMP Concentration Risk Policy. The following table provides information regarding the credit risk exposures for items monitored by AMP Treasury according to the credit rating of the counterparties.

	2012 $m	2011 $m
AAA	2,543	3,574
AA- to AA+	8,881	7,491
A- to A+	2,220	3,368
BBB- to BBB+	877	1,185
BB+ and below	66	165
Total financial assets with credit risk exposure managed by AMP Treasury	**14,587**	**15,783**

(iii) Past due but not impaired financial assets
The following table provides an aging analysis of financial assets that are past due as at reporting date but not impaired. No disclosures are required for the parent entity as the parent 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:

	2012 $m	2011 $m
Cumulative adjustment	20	26
Change during the period	(7)	7

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.

(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 unless they qualify as effective cash flow hedges or net investment hedges for accounting purposes, as set out in Note 1(o).

(i) Derivative transactions undertaken by AMP life insurance entities as part of life insurance operations
The AMP group 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.

(ii) Risk relating to derivative financial instruments
The market risk of derivatives is managed and controlled as an integral part of the financial risk of the AMP group. The credit risk of derivatives is also managed in the context of the AMP group'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 arm's length basis.

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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 the AMP group's own data, reflecting the AMP group'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.

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19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	9,264	1,658	194	11,116
Debt securities	-	9,180	119	9,299
Investments in unlisted managed investment schemes	-	47,339	189	47,528
Derivative financial assets	152	214	-	366
Other financial assets	-	139	-	139
Total financial assets	**9,416**	**58,530**	**502**	**68,449**
Liabilities				
Borrowings	-	567	-	567
Other financial liabilities	594	80	-	674
Investment contract liabilities	-	3,443	49,621	53,064
Total financial liabilities	**594**	**4,090**	**49,621**	**54,305**

2011	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
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	-	42,234	222	42,456
Derivative financial assets	227	308	-	535
Other financial assets	-	125	-	125
Total financial assets	**9,786**	**51,991**	**605**	**62,382**
Liabilities				
Borrowings	-	573	-	573
Other financial liabilities	677	67	-	744
Investment contract liabilities	-	3,062	44,737	47,799
Total financial liabilities	**677**	**3,702**	**44,737**	**49,116**

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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:

2012	Balance at the beginning of the year $m	FX gains or losses $m	Total gains/ losses $m	Purchases/ deposits $m	Sales/ with-drawals $m	Net transfers in/(out) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets								
Equity securities and listed managed investment schemes	232	-	(36)	17	(19)	-	194	(36)
Debt Securities	151	-	(4)	1	(75)	46	119	(4)
Investments in unlisted managed investment schemes	222	-	(33)	9	(9)	-	189	(33)
Total financial assets	**605**	**-**	**(73)**	**27**	**(103)**	**46**	**502**	**(73)**
Liabilities								
Investment contract liabilities	44,737	-	5,357	8,312	(8,785)	-	49,621	5,105
Total financial liabilities	**44,737**	**-**	**5,357**	**8,312**	**(8,785)**	**-**	**49,621**	**5,105**
2011								
Assets								
Equity securities and listed managed investment schemes	211	-	17	2	-	2	232	17
Debt Securities	113	-	30	-	(46)	54	151	30
Investments in unlisted managed investment schemes	183	-	(15)	3	(5)	56	222	(15)
Total financial assets	**507**	**-**	**32**	**5**	**(51)**	**112**	**605**	**32**
Liabilities								
Investment contract liabilities	46,585	(2)	(1,494)	8,972	(9,326)	2	44,737	(1,441)
Total financial liabilities	**46,585**	**(2)**	**(1,494)**	**8,972**	**(9,326)**	**2**	**44,737**	**(1,441)**

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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:

2012	Carrying amount $m	Effect of reasonably possible alternative assumptions (+) $m	(-) $m
Assets			
Equity securities and listed managed investment schemes	194	9	(9)
Debt securities	119	-	-
Investments in unlisted managed investment schemes	189	-	-
Financial assets	**502**	**9**	**(9)**
Liabilities			
Investment contract liabilities	49,621	6	(6)
Financial liabilities	**49,621**	**6**	**(6)**

2011	Carrying amount $m	Effect of reasonably possible alternative assumptions (+) $m	(-) $m
Assets			
Equity securities and listed managed investment schemes	232	24	-
Debt securities	151	-	-
Investments in unlisted managed investment schemes	222	-	-
Financial assets	**605**	**24**	**-**
Liabilities			
Investment contract liabilities	44,737	9	(9)
Financial liabilities	**44,737**	**9**	**(9)**

Footnote:

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

Notes to financial statements

20. CAPITAL MANAGEMENT

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

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. From 1 January 2013, these will be replaced with revised APRA 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.

The target surplus policy for AMP Life has been revised following the introduction of revised life insurance APRA Prudential Standards, which take effect 1 January 2013.

APRA has introduced revised Prudential Standards relating to minimum financial requirements of superannuation funds. These revised prudential standards will commence on 1 July 2013, with transitional arrangements applying over the three years following the commencement date.

21. NOTES TO STATEMENT OF CASH FLOWS

	2012 $m	2011 $m
(a) Reconciliation of the net profit after income tax to cash flows from operating activities		
Net profit for the year	532	680
Depreciation of operating assets	9	9
Investment gains and losses - realised and unrealised	(5,247)	3,487
Dividend and distribution income reinvested	(1,645)	(2,131)
Decrease / (increase) in receivables and other assets	36	(71)
Increase / (decrease) in net policy liabilities	5,864	(1,197)
Increase / (decrease) in income tax balances	397	(356)
Increase in other payables	91	545
Cash flows from (used in) operating activities	**37**	**966**

	2012 $m	2011 $m
(b) Reconciliation of cash		
Cash on hand	12	-
Cash on deposit	3,690	3,260
Short term bills and notes (included in debt securities)	895	1,591
Balance at the end of the period	**4,597**	**4,851**

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22. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

				% Holdings	
NAME OF ENTITY	INCORPORATION	Share type	Footnote	2012	2011
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		100	100
ACN 155 075 040 Pty Ltd	Australia	Ord,Class A Pref	(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	(2)	-	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 Insurance Investment Holdings Pty Limited	Australia	Ord		100	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 Direct Pty Limited (formerly AMP Private Wealth Management Pty Limited)	Australia	Ord		100	100
AMP Property Investments (Qld) Pty. Ltd.	Australia	Ord		100	100
AMP Real Estate Advisory Holdings Pty Limited	Australia	Ord	(1)	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		100	100
AMP Superannuation (NZ) Limited	NZ	Ord		100	100
AMP Superannuation Limited	Australia	Ord		100	100
AMP/ERGO Mortgage and Savings Limited	NZ	Ord		100	100
Arrive Wealth Management Limited	Australia	Ord		100	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	(2)	-	58
Donaghys Industries Limited	NZ	Ord	(2)	-	58

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22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled entities are as follows:

				% Holdings	
NAME OF ENTITY	INCORPORATION	Share type	Footnote	2012	2011
Donaghys International Limited	NZ	Ord	(2)	-	58
Donaghys Limited	NZ	Ord, Pref	(2)	-	58
Donaghys Pty Limited	NZ	Ord	(2)	-	58
Focus Property Services Pty Limited	Australia	Ord	(3)	92	92
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 Melbourne Pty Limited	Australia	Ord		100	100
Honeysuckle 231 Pty Limited	Australia	Ord		60	60
INSSA Pty Limited	Australia	Ord		100	100
Jeminex Pty Limited	Australia	Ord		51	51
Kent Street Pty Limited	Australia	Ord		100	100
Kiwi Kat Limited	NZ	Ord		70	70
Knox City Shopping Centre Investments (No. 2) Pty Limited	Australia	Ord		100	100
Kramar Holdings Pty Limited	Australia	Ord	(2)	-	78
Mowla Pty. Limited	Australia	Ord		78	79
National Fire Holdings Pty Limited	Australia	Ord		51	51
One Group Retail Holdings Pty Limited	Australia	Ord		52	52
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, Red 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 (Newcastle) 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

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22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled entities are as follows:

				% Holdings	
NAME OF ENTITY	INCORPORATION	Share type	Footnote	2012	2011
SPP No. 1 (Mt. Waverley) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Port Melbourne) Pty Limited	Australia	Ord		86	86
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)	56	56
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 2012.

(2) Controlling interest disposed in 2012.

(3) Not audited by Ernst & Young.

22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings 2012	2011
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		75	76
AFS Alternative Fund 1	Australia	(1)	100	-
AFS Australian Share Fund 8	Australia	(1)	100	-
AFS Extended Alpha Fund (formerly AMP Capital Sustainable Extended Alpha Fund)	Australia		100	100
AFS International Share Fund 1	Australia		100	100
Aggressive Enhanced Index Fund	Australia		100	100
AHGI Martineau Fund	Australia		100	100
AHGI Martineau Galleries Fund	Australia		100	100
AMP Capital Alternative Defensive Fund - Delayed Redemption	Australia	(1)	100	-
AMP Capital Asia ex-Japan Fund	Australia		100	100
AMP Capital Asia Local Currency Bond Fund	Australia	(1)	100	-
AMP Capital Asian Equity Growth Fund	Australia		75	73
AMP Capital Australian Equity Income Fund	Australia	(1)	100	-
AMP Capital Australian Equity Opportunities Fund	Australia	(1)	81	-
AMP Capital Corporate Bond Fund	Australia		76	86
AMP Capital Credit Strategies Fund	Australia		91	93
AMP Capital Extended Multi-Asset Fund	Australia	(1)	71	-
AMP Capital Global Equities Sector Rotation Fund	Australia		100	100
AMP Capital Global Infrastructure Securities Fund (Hedged)	Australia		80	84
AMP Capital Global Infrastructure Securities Fund (Unhedged)	Australia		80	84
AMP Capital Global Tactical Asset Allocation Fund	Australia	(2)	-	100
AMP Capital Global Resource Fund	Australia	(1)	100	-
AMP Capital Australian Equity Long Short Fund	Australia		100	100
China Strategic Growth Fund	Australia		100	100
AMP Capital Infrastructure Fund 1	Australia		100	100
AMP Capital Macro Strategies Fund	Australia		84	84
AMP Capital Multi-Asset Fund	Australia		73	99
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Australia	(2)	-	90
AMP Capital Shell Fund 1	Australia	(1)	65	-
AMP Capital Shell Fund 2	Australia	(1)	100	-
AMP Capital Sustainable Share Fund	Australia		68	66
AMP Life Cash Management Trust	Australia		100	100
AMP Macquarie Holdings Trust	Australia	(2)	-	90
AMP Macquarie Trust	Australia	(2)	-	90
AMP Pacific Fair Trust	Australia	(2)	-	90
AMP Private Capital Trust No.9	Australia		100	100
AMP Capital Australian Small Companies Fund	Australia		54	51

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22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings 2012	% Holdings 2011
AMP Shareholder Fixed Interest Fund	Australia	(1)	100	-
AMP UK Shopping Centre Fund	Australia		100	100
AMP Capital Wholesale Office Fund	Australia	(3)	34	36
AMPCI FD Infrastructure Trust	Australia		97	97
Australian Pacific Airports Fund	Australia		66	66
AWOF New Zealand Office Trust	New Zealand	(3)	34	36
Balanced Enhanced Index Fund	Australia		100	100
Booragoon Trust	Australia	(1)	100	-
Bourke Place Unit Trust	Australia	(3)	25	26
Cautious Enhanced Index Fund	Australia		100	100
Conservative Enhanced Index Fund	Australia		99	98
Crossroads Trust	Australia		100	100
Davidson Road Trust	Australia		100	100
EFM Australian Share Fund 1	Australia		97	97
EFM Australian Share Fund 2	Australia		99	99
EFM Australian Share Fund 3	Australia		98	98
EFM Australian Share Fund 4	Australia		94	94
EFM Australian Share Fund 6	Australia		99	99
EFM Australian Share Fund 7	Australia		98	98
EFM Fixed Interest Fund 2	Australia		96	97
EFM Fixed Interest Fund 3	Australia		95	96
EFM Fixed Interest Fund 4	Australia		94	94
EFM Infrastructure Fund 1	Australia		95	96
EFM International Share Fund 3	Australia		97	97
EFM International Share Fund 5	Australia		97	97
EFM International Share Fund 7	Australia		91	92
EFM Listed Property Fund 1	Australia		96	96
Enhanced Index International Share Fund	Australia		81	82
Enhanced Index Share Fund	Australia		89	90
FD Australian Share Fund 1	Australia		97	97
FD Australian Share Fund 3	Australia		93	93
FD Global Property Securities Fund 1	Australia	(2)	-	94
FD International Share Fund 1	Australia		95	95
FD International Share Fund 3	Australia		99	99
FD International Share Fund 4	Australia		96	97
Floating Rate Income Fund	Australia		96	97
Future Direction Australian Bond Fund	Australia		96	96
Future Directions Asia ex Japan Fund	Australia		74	74
Future Directions Australian Share Fund	Australia		93	94
Future Directions Australian Small Companies Fund	Australia		90	89
Future Directions Balanced Fund	Australia		98	98
Future Directions Conservative Fund	Australia		95	94
Future Directions Core International Share Fund 2	Australia		59	58

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22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES			% Holdings	
NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	2012	2011
Future Directions Credit Opportunities Fund	Australia		95	97
Future Directions Diversified Alternatives Fund	Australia	(1)	97	-
Future Directions Enhanced Index Australian Share Fund	Australia		97	97
Future Directions Enhanced Index Global Property Securities Fund	Australia		97	96
Future Directions Enhanced Index International Bond Fund	Australia	(2)	-	81
Future Directions Geared Australian Share Fund	Australia		93	92
Future Directions Global Credit Fund (formerly FD International Bond Fund 3)	Australia		95	89
Future Directions Global Government Bond Fund	Australia	(1)	92	-
Future Directions Growth Fund	Australia		97	96
Future Directions Hedged Core International Share Fund	Australia		61	63
Future Directions High Growth Fund	Australia		95	95
Future Directions Inflation Linked Bond Fund	Australia		95	97
Future Directions Infrastructure Fund	Australia		97	97
Future Directions International Bond Fund	Australia		95	93
Future Directions International Share Fund	Australia		58	57
Future Directions Moderately Conservative Fund	Australia		95	95
Future Directions Opportunistic Fund	Australia		97	97
Future Directions Private Equity Fund 1A	Australia		97	97
Future Directions Private Equity Fund 1B	Australia		100	100
Future Directions Private Equity Fund 2A	Australia		97	97
Future Directions Private Equity Fund 2B	Australia		100	100
Future Directions Private Equity Fund 3A	Australia		97	100
Future Directions Private Equity Fund 3B	Australia		100	100
Future Directions Property (Feeder) Fund	Australia		97	96
AMP Capital Alternative Defensive Fund (formerly Future Directions Total Return Fund)	Australia		98	97
Future Directors Emerging Markets Share Fund	Australia		52	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	(2)	-	96
International Bond Fund	Australia		93	91
ipac Diversified Investment Strategy No 2	Australia	(1)	63	-
ipac Diversified Investment Strategy No 4	Australia	(1)	69	-
Kent Street Investment Trust	Australia		100	100
Kent Street Unit Trust	Australia		100	100
Loftus Street Trust	Australia	(3)	36	36
Macquarie Balanced Growth Fund	Australia		83	78
Managed Treasury Fund	Australia		92	76
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

Notes to financial statements

for the year ended 31 December 2012

22. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES			% Holdings	
NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	2012	2011
Private Equity Fund IIIA	Australia		94	94
Private Equity Fund IIIB	Australia		94	94
Responsible Investment Leaders Conservative Fund	Australia		95	94
Responsible Investment Leaders Growth Fund	Australia		97	96
Responsible Investment Leaders High Growth Fund	Australia		100	100
Riverside Plaza Trust	Australia		100	100
Select Property Portfolio No. 1	Australia		86	86
Sydney Cove Trust	Australia		100	100
The Glendenning Trust	Australia		100	100
The Pinnacle Fund	Australia		99	99
Warringah Mall Trust	Australia		50	67
Wholesale Australian Bond Fund	Australia		90	93

Footnotes:

(1) Controlling interest acquired in 2012

(2) Controlling interest disposed of in 2012

(3) Not more than 50% holding, but consolidated because AMP retains control over the operating functions

Notes to financial statements

for the year ended 31 December 2012

23. ASSOCIATES

Investments in associates held by the life statutory funds measured at fair value through profit or loss[1]

			Ownership Interest		Carrying amount	
COMPANIES	PRINCIPAL		2012	2011	2012	2011
NAME OF COMPANY	ACTIVITY[3]		%	%	$m	$m
Gove Aluminium Finance	Investment into aluminium smelter Tomago,NSW		30%	30%	108	137
Asian Giant Infrastructure	Infrastructure investment		37%	37%	20	12
Total investments held by the life statutory funds in associated companies					**128**	**149**

UNIT TRUSTS[2] NAME OF TRUST						
Aged Care Investment Trust No.1	Investment trusts		48%	48%	73	69
Aged Care Investment Trust No.2	Investment trusts		48%	48%	73	69
AMP Capital China Growth Fund	Investment trusts		34%	34%	79	73
AMP Capital Global Property Securities Fund	Investment trusts		36%	27%	466	268
AMP Capital Infrastructure Equity Fund (formally Infrastructure Equity Fund)	Investment trusts		31%	29%	131	190
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Investment trusts	(5)	26%	-	304	-
AMP Capital Shopping Centre Fund	Investment trusts		34%	37%	632	642
AMP Capital Equity Fund	Investment trusts		42%	42%	189	181
AMP Shareholder Cash Fund	Investment trusts	(5)	24%	-	154	-
Australian Pacific Airports Fund	Investment trusts	(4)	-	36%	-	64
Future Directions International Small Companies Fund	Investment trusts		39%	40%	159	137
Listed Property Fund	Investment trusts		31%	33%	57	44
Property Income Fund	Investment trusts		30%	35%	126	201
Responsible Investments Leader Balanced Fund	Investment trusts		44%	41%	229	212
Schroder Fixed Income Fund	Investment trusts	(5)	24%	-	178	-
Others (each less than $50m)	Investment trusts		Various		163	245

Footnote:

(1) Investment in associated entities that back investment contract and life insurance contract liabilities are treated as financial assets and are measured 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 associate during 2012.

(5) Trust became an associate during 2012.

24. 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.

Notes to financial statements

for the year ended 31 December 2012

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:

Catherine Brenner	Chairman, Non-Executive Director	
Craig Dunn	Director, Chief Executive Officer - AMP Limited	
Craig Meller	Managing Director – AMP Financial Services	
Anthony Coleman	Non-Executive Director	
Diana Eilert	Non-Executive Director	Appointed: 10 August 2012
John Palmer	Non-Executive Director	
Geoffrey Roberts	Non-Executive Director	Resigned: 31 March 2012
Peter Shergold	Non-Executive Director	

(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 $	Total $
2012	5,613,295	103,037	3,376,000	**9,092,332**
2011	5,396,426	85,318	3,341,000	**8,822,744**

Footnote:

The fees paid to non-executive directors of AMP Life are the combined fees for AMP Life Limited and the National Mutual Life Association of Australasia Limited.

(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:

- Purchase of insurance products available to other employees and policy owners;
- Purchase of superannuation products available to other employees and policy owners;
- Placement of funds on deposit; and
- Acquisition and disposal of units in controlled managed investment scheme and receipts of trust distributions.

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.

No Director or Director-related entities had loans with AMP Life in 2012 (2011: nil).

A number of Directors of the company are also Directors of public companies and/or are a Partner of a professional service partnership which have transactions with AMP Life. The Directors do not believe that they have the capacity to control or significantly influence the financial or operating policies of either company in their dealings with each other. Those companies are therefore not considered to be Director-related entities.

(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 2011 and 31 December 2012 are unsecured, non interest bearing and settlement occurs in cash or through intercompany accounts as necessary.

AMP Life purchases administrative services from AMP Services Limited and AMP Services (NZ) Limited on a fee service basis. (2012: $661m, 2011: $645m). 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 (2012: $196m, 2011: $211m). 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 22 and Note 23. 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.

Notes to financial statements

for the year ended 31 December 2012

25. RELATED PARTY DISCLOSURES (CONTINUED)

The company has amounts in deposits with AMP Bank Limited (2012: $3,680m, 2011: $3,253m). Deposits earn interest at normal commercial rates. As at 31 December 2012, a put and call agreement exists between AMP Bank Limited and AMP Life whereby AMP Life will indemnify AMP Bank against any losses incurred by AMP Bank for practice finance loans issued by AMP Bank to financial planners.

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

Fellow subsidiaries of AMP Limited		Service, management and other fees received from related parties $m	Service, management and other fees paid to related parties $m	Amounts owed by related parties $m	Amounts owed to related parties $m
ACPP Holding Trust	2012	8	-	-	-
	2011	8	-	-	-
AMP AAPH Limited	2012	-	-	-	-
	2011	-	2	-	-
AMP ASAL Pty Ltd	2012	-	-	5	-
	2011	-	-	5	-
AMP Bank Limited	2012	-	-	3,680	-
	2011	-	-	3,253	-
AMP Bermuda Ltd	2012	-	-	-	71
	2011	-	-	-	71
AMP Capital Investors Limited	2012	12	196	-	26
	2011	9	211	-	30
AMP Capital Shopping Centre	2012	-	6	-	-
	2011	-	6	-	-
AMP CMBS No. 1 Pty Limited	2012	-	-	-	-
	2011	-	-	10	-
AMP CMBS No. 2 Pty Limited	2012	-	-	-	-
	2011	-	-	19	-
AMP Finance Services Limited	2012	-	-	-	-
	2011	-	-	12	-
AMP Financial Planning Pty Limited	2012	-	287	8	-
	2011	-	283	5	-
AMP Financial Services Holdings Limited	2012	-	-	-	-
	2011	-	-	173	-
AMP Insurance Investment Holdings Pty Limited	2012	-	-	12	-
	2011	-	-	13	-
AMP Life (NZ) Investments Holdings Limited	2012	-	-	798	-
	2011	-	-	764	-
AMP Life (NZ) Investments Holdings Limited - IL Fund	2012	-	-	54	-
	2011	-	-	51	-
AMP Life (NZ) Investments Limited	2012	-	-	-	36
	2011	-	-	-	2
AMP Life (NZ) Investments Limited - IL Fund	2012	-	-	-	36
	2011	-	-	-	22

Notes to financial statements

for the year ended 31 December 2012

25. RELATED PARTY DISCLOSURES (CONTINUED)

Fellow subsidiaries of AMP Limited		Service, management and other fees received from related parties $m	Service, management and other fees paid to related parties $m	Amounts owed by related parties $m	Amounts owed to related parties $m
AMP Planner Register Company Pty Limited	2012	-	-	45	1
	2011	-	-	41	1
AMP Property Investments (Qld) Pty. Limited.	2012	-	-	-	54
	2011	-	-	-	54
AMP Services Limited	2012	46	625	4	-
	2011	46	608	4	-
AMP Superannuation Limited	2012	-	7	-	-
	2011	-	6	-	-
AMP Services (NZ) Limited	2012	-	36	-	2
	2011	-	37	-	2
Charter Financial Planning Ltd	2012	-	2	-	-
	2011	-	-	-	-
Ergo Mortgage and Savings	2012	-	-	1	-
	2011	-	-	-	-
Hillross Alliances Limited	2012	-	-	4	-
	2011	-	-	4	1
Hillross Financial Service	2012	-	19	6	-
	2011	-	20	5	-
INSSA Pty Limited	2012	-	-	-	2
	2011	-	-	-	1
Jigsaw Support Services Ltd	2012	-	1	-	-
	2011	-	-	-	-
Kent Street Investment Trust	2012	1	-	44	-
	2011	1	-	44	-
NMFM Limited	2012	-	-	-	1
	2011	-	-	-	-
NMLA Shareholders Fund	2012	-	-	3	-
	2011	-	-	-	-
NMLA No1 Stat Fund	2012	-	-	-	2
	2011	-	-	-	-
Private Equity Fund III	2012	-	-	37	-
	2011	-	-	38	-

25. RELATED PARTY DISCLOSURES (CONTINUED)

Fellow subsidiaries of AMP Limited		Service, management and other fees received from related parties $m	Service, management and other fees paid to related parties $m	Amounts owed by related parties $m	Amounts owed to related parties $m
Sydney Cove Trust	2012	1	-	-	-
	2011	1	-	-	-
TOA Pty Limited	2012	-	-	-	319
	2011	-	-	-	319
140 St Georges Terrace Trust	2012	1	-	-	-
	2011	1	-	-	-

26. AUDITOR'S 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.

	2012 $'000	2011 $'000
Amounts paid or payable to the auditors of AMP Life Limited for:		
Auditing the financial statements of AMP Life Limited and its controlled entities	1,040	1,300
Total amounts received or due and receivable by the auditors of AMP Life Limited[1]	**1,040**	**1,300**

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 AMP Life group, the results of its operations or its state of affairs, which is not already reflected in this report, other than the following:

- From 1 January 2013, revised life insurance APRA Prudential Standards relating to capital adequacy apply to AMP Life Limited. As at 31 December 2012, AMP Life Limited's capital adequacy multiple would have been 2.1 had these revised requirements applied (the capital adequacy multiple is a coverage ratio that expresses the total capital base divided by the prescribed capital amount). The equivalent multiple under the current standards at 31 December 2012 is 1.4. As at 1 January 2013, the total capital base of each AMP Life Limited statutory fund and its shareholders' fund exceed its prescribed capital amount under these revised standards.

Directors' declaration

for the year ended 31 December 2012

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).

CJ Meller

(signature)

CRAIG MELLER

(name)

Director

Sydney, 27 March 2013

C. Brenner

(signature)

CATHERINE BRENNER

(name)

Director

Sydney, 27 March 2013

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Independent auditor's report to the members of AMP Life Limited

We have audited the accompanying financial report of AMP Life Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then 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 Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation 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 complied with 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.

Ernst & Young

Opinion

In our opinion:

a. the financial report of AMP Life Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
27 March 2013

Appointed Actuary's Report

To the Directors of AMP Life Limited ("AMP Life")

This report has been prepared for AMP Life in accordance with Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").

In terms of Section 77(1) of the Act, I have reviewed the actuarial information contained in, or used in the preparation of the Directors' Report and Financial Report for AMP Life Limited for the year ended 31 December 2012 ("the Financial Statements").

For the purposes of this report, "actuarial information" is as defined in Section 77(4) of the Act, together with paragraph 4.1.1 of the Attachment to the Section 59 "Exemption from Compliance with Solvency Standard" granted to AMP Life by the Reserve Bank of New Zealand under the Act.

I certify that in my opinion**:**

a) The value of policy liabilities of AMP Life and the solvency of AMP Life have been determined using methods and assumptions consistent with the actuarial prudential standards issued by the Australian Prudential Regulation Authority ("APRA").

b) The allocation and distribution of the profits of the Statutory Funds of AMP Life have been made in accordance with Divisions 5 and 6 of Part 4 of the Australian Life Insurance Act 1995 (Life Act) and the Constitution of AMP Life.

c) Proper records have been kept by AMP Life from which its policy liabilities and solvency have been able to be properly determined.

d) The apportionment of income and outgo used in preparing the AMP Life accounts at 31 December 2012, as required under Sections 78 and 79 of the Life Act, is appropriate.

e) I have obtained all of the information and explanations that I require from AMP Life.

In addition, I certify that in my opinion, and from an actuarial perspective:

f) The actuarial information contained in the Financial Statements has been appropriately included in those statements.

g) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

h) AMP Life has fully complied with the APRA solvency standard and capital adequacy standard throughout the year ended 31 December 2012. Note that the APRA solvency standard is the applicable standard that applies under the Section 59 exemption granted by the Reserve Bank of New Zealand.

Other than my relationship as Appointed Actuary of AMP Life Limited, I am an employee of the AMP Group, of which AMP Life forms part, and a member of the AMP Employees' Superannuation Plan. I hold shares and options in AMP Limited, the ultimate holding company of AMP Life. I am a customer of AMP Bank Limited, which is also part of the AMP Group.

This report is provided solely in my capacity as the AMP Life Limited Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, AMP Life Limited and its directors and shareholders.

RMangano

Rocco Mangano FIAA
Appointed Actuary, AMP Life Limited
24 April 2013