

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

**Financial Statements**  
**for the year ended**  
**31 December 2013**

# AMP Life Limited (New Zealand Branch)

## Financial Statements

31 December 2013

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Registered Office  
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 2013

	Note	Consolidated		Parent	
		2013	2012 <i>Restated</i>	2013	2012
		\$000	\$000	\$000	\$000
<b>Income and expenses of shareholder of AMP Life Limited, policyholders, and non-controlling interests</b>					
<b>Continuing Operations:</b>					
Life insurance premium and related revenue	17(a)	215,659	220,309	215,659	220,309
Fee revenue	5(a)	170,662	161,092	3,716	2,470
Other revenue	5(b)	6,245	3,882	-	-
Investment gains	5(c)	64,398	298,066	59,450	289,838
Life insurance claims and related expenses	17(b)	(216,341)	(208,451)	(216,341)	(208,451)
Operating expenses	6(a)	(225,027)	(221,723)	(63,635)	(72,398)
Finance costs	6(b)	(283)	(119)	(294)	(109)
Change in policyholder liabilities					
- Life insurance contracts	17(e)	(11,528)	(103,865)	(11,528)	(103,865)
- Investment contracts	18(g)	(17,080)	(13,934)	(17,080)	(13,934)
Profit (loss) for the year before income tax		(13,295)	135,257	(30,053)	113,860
Income tax credit (expense)	7(a)	53,142	(50,552)	58,195	(45,507)
Profit from continuing operations after tax		39,847	84,705	28,142	68,353
<b>Discontinued Operations:</b>					
Profit / (loss) from discontinued operations after tax	8(a)	-	(13,644)	-	-
<b>Profit for the year</b>		<b>39,847</b>	<b>71,061</b>	<b>28,142</b>	<b>68,353</b>
Profit for the year is attributable to:					
Non-controlling interests	8(a)	-	(7,557)	-	-
Shareholder of AMP Life Limited		39,847	78,618	28,142	68,353
<b>Profit for the year</b>		<b>39,847</b>	<b>71,061</b>	<b>28,142</b>	<b>68,353</b>

**Note:**

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

The restatement to comparative information is required due to changes in accounting standard NZ IAS 19 *Employee Benefits* (Revised 2011) which became effective in the current period. Refer to Note 2(a) for further information.

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 2013

	Consolidated		Parent	
	2013	2012	2013	2012
		<i>Restated</i>		
	\$000	\$000	\$000	\$000
<b>Profit for the year</b>	<b>39,847</b>	<b>71,061</b>	<b>28,142</b>	<b>68,353</b>
<b>Other comprehensive income - items that will not be reclassified subsequently to profit or loss:</b>				
<b>Recognised in retained earnings</b>				
Defined benefit plans				
- actuarial gains and (losses)	23(b) 5,979	692	-	-
- income tax (expense) credit	(1,674)	(193)	-	-
	<b>4,305</b>	<b>499</b>	<b>-</b>	<b>-</b>
<b>Recognised in reserves</b>				
- share-based payments	944	549	-	-
	<b>944</b>	<b>549</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>45,096</b>	<b>72,109</b>	<b>28,142</b>	<b>68,353</b>
Total comprehensive income for the year is attributable to:				
Non-controlling interests	-	(7,557)	-	-
Shareholder of AMP Life Limited	45,096	79,666	28,142	68,353
<b>Total comprehensive income for the year</b>	<b>45,096</b>	<b>72,109</b>	<b>28,142</b>	<b>68,353</b>

The accompanying notes form part of these financial statements



**AMP Life Limited (New Zealand Branch)**  
Statement of financial position as at 31 December 2013

	Note	Consolidated			Parent	
		2013	2012	2011	2013	2012
			<i>Restated</i>	<i>Restated</i>		
		\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Cash and cash equivalents	22(b)	109,074	181,435	137,713	17,900	35,340
Receivables	9	207,592	105,651	82,301	171,407	59,791
Current tax assets		23,481	23,927	13,585	12,400	18,147
Other assets	11	1,740	2,210	14,772	-	-
Investment in financial assets	10	2,624,154	2,571,223	2,464,517	2,978,046	2,814,357
Plant and equipment	12	13,655	11,489	11,365	-	-
Intangibles	13	20,778	19,916	19,048	-	-
Deferred tax assets	7(c)	35,914	19,775	14,328	23,760	-
<b>Total assets of shareholder of AMP Life Limited, policyholders and non-controlling interests</b>		<b>3,036,388</b>	<b>2,935,626</b>	<b>2,757,629</b>	<b>3,203,513</b>	<b>2,927,635</b>
<b>Liabilities</b>						
Payables	14	84,066	62,719	60,360	340,647	129,325
Provisions	15	38,973	40,992	31,320	-	-
Borrowings		-	-	3,534	-	-
Derivative financial liabilities	20	120,077	4,265	13,628	109,152	1,073
Deferred tax liabilities	7(d)	164,486	228,356	215,176	164,486	228,356
Life insurance contract liabilities	17(e)	1,936,508	1,917,075	1,818,412	1,936,508	1,917,075
Investment contract liabilities	18(g)(ii)	114,059	110,631	113,324	114,059	110,631
Defined benefit plan liabilities	23(e)	3,691	11,497	13,893	-	-
<b>Total liabilities of shareholder of AMP Life Limited, policyholders and non-controlling interests</b>		<b>2,461,860</b>	<b>2,375,535</b>	<b>2,269,647</b>	<b>2,664,852</b>	<b>2,386,460</b>
<b>Net assets of shareholder of AMP Life Limited and non-controlling interests</b>		<b>574,528</b>	<b>560,091</b>	<b>487,982</b>	<b>538,661</b>	<b>541,175</b>
<b>Equity</b>						
Reserves		2,540	1,596	1,047	-	-
Retained earnings		571,988	558,492	479,375	538,661	541,175
<b>Total equity attributable to shareholder of AMP Life Limited</b>		<b>574,528</b>	<b>560,088</b>	<b>480,422</b>	<b>538,661</b>	<b>541,175</b>
Non-controlling interests		-	3	7,560	-	-
<b>Total equity of shareholder of AMP Life Limited and non-controlling interests</b>		<b>574,528</b>	<b>560,091</b>	<b>487,982</b>	<b>538,661</b>	<b>541,175</b>

For and on behalf of the Board who authorised these financial statements for issue on 2 May 2014:



Director



Director

**Note:**

The restatement of comparative information is required due to changes in accounting standard NZ IAS 19 Employee Benefits (Revised 2011) which became effective in the current period. Refer to Note 2(a) for further information.

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 2013

### Consolidated

	Equity attributable to shareholder of AMP Life Limited				
	Retained earnings	Share-based payments reserve	Total shareholder equity	Non-controlling interest	Total equity
	\$000	\$000	\$000	\$000	\$000
<b>31 December 2013</b>					
Balance at the beginning of the year	558,492	1,596	560,088	3	560,091
Profit for the year	39,847	-	39,847	-	39,847
Other comprehensive income	4,305	944	5,249	-	5,249
Total comprehensive income	44,152	944	45,096	-	45,096
Transfer of profit to AMP Life Limited Shareholder Fund	(30,656)	-	(30,656)	-	(30,656)
Minority interest on sales				(3)	(3)
<b>Balance at the end of the year</b>	<b>571,988</b>	<b>2,540</b>	<b>574,528</b>	<b>-</b>	<b>574,528</b>
<b>31 December 2012</b>					
Balance at the beginning of the year	476,959	1,047	478,006	7,560	485,566
Impact of change in accounting policy 2(a)	2,416	-	2,416	-	2,416
Balance at the beginning of the year restated	479,375	1,047	480,422	7,560	487,982
Profit for the year	79,251	-	79,251	(7,557)	71,694
Impact of change in accounting policy 2(a)	(633)	-	(633)	-	(633)
Profit for the year restated	78,618	-	78,618	(7,557)	71,061
Other comprehensive income	(755)	549	(206)	-	(206)
Impact of change in accounting policy 2(a)	1,254	-	1,254	-	1,254
Other comprehensive income restated	499	549	1,048	-	1,048
Total comprehensive income	79,117	549	79,666	(7,557)	72,109
<b>Balance at the end of the year</b>	<b>558,492</b>	<b>1,596</b>	<b>560,088</b>	<b>3</b>	<b>560,091</b>

### Parent

	Retained Earnings	Other reserves	Total shareholder equity
<b>31 December 2013</b>			
Balance at the beginning of the year	541,175	-	541,175
Profit for the year	28,142	-	28,142
Total comprehensive income	28,142	-	28,142
Transfer of profit to parent branch	(30,656)		(30,656)
<b>Balance at the end of the year</b>	<b>538,661</b>	<b>-</b>	<b>538,661</b>
<b>31 December 2012</b>			
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
<b>Balance at the end of the year</b>	<b>541,175</b>	<b>-</b>	<b>541,175</b>

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 2013

		Consolidated		Parent	
		2013	2012	2013	2012
	Note	\$000	\$000	\$000	\$000
<b>Cash flows from operating activities</b>					
Cash receipts in the course of operations		297,512	351,493	213,968	215,638
Interest received		113,086	101,613	51,712	47,208
Dividends and distributions received		64	1,249	35	1,052
Cash payments in the course of operations		(435,003)	(425,306)	(298,616)	(286,799)
Finance costs		(283)	(119)	(294)	(109)
Income tax refunded / (paid)		(26,421)	(53,605)	(23,688)	(46,030)
<b>Cash flows from (used in) operating activities</b>	22(a)	<b>(51,045)</b>	<b>(24,675)</b>	<b>(56,883)</b>	<b>(69,040)</b>
<b>Cash flows from investing activities</b>					
Net proceeds from sale of / (payments to acquire) <sup>(1)</sup> :					
- investments in financial assets measured at fair value		13,611	78,647	63,230	77,677
- investments in financial assets measured at amortised cost		(353)	1,128	(5)	364
Proceeds from disposal of controlled entity		-	4,000	-	-
Purchase of plant and equipment		(5,262)	(7,718)	-	-
Purchase of intangibles		(5,530)	(7,660)	-	-
<b>Cash flows from (used in) investing activities</b>		<b>2,466</b>	<b>68,397</b>	<b>63,225</b>	<b>78,041</b>
<b>Cash flows from financing activities</b>					
Transfer of funds to parent branch		(23,782)	-	(23,782)	-
<b>Cash flows from (used in) financing activities</b>		<b>(23,782)</b>	<b>-</b>	<b>(23,782)</b>	<b>-</b>
Net increase (decrease) in cash and cash equivalents		(72,361)	43,722	(17,440)	9,001
Cash and cash equivalents at the beginning of the year		181,435	137,713	35,340	26,339
<b>Cash and cash equivalents at the end of the year</b>	22(b)	<b>109,074</b>	<b>181,435</b>	<b>17,900</b>	<b>35,340</b>

The accompanying notes form part of these financial statements

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

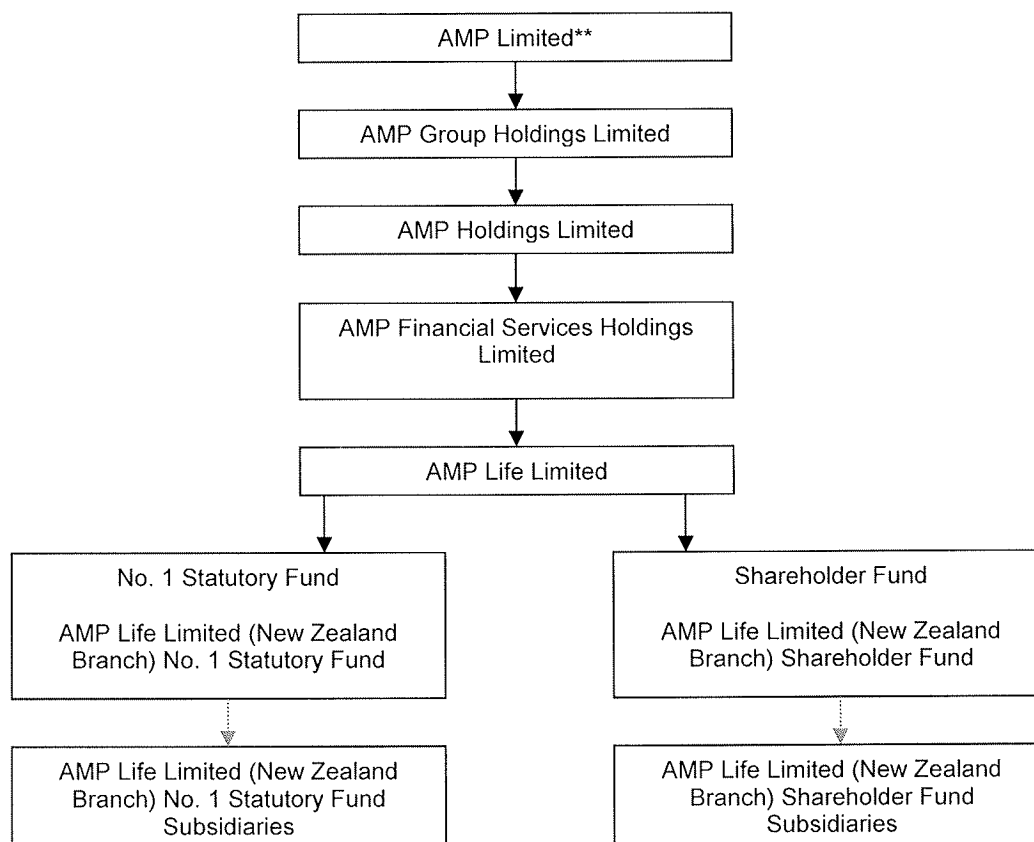
# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 1. CORPORATE INFORMATION

### Reporting entity

In September 2013 the Reserve Bank of New Zealand ("RBNZ") granted AMP Life Limited ("AMP Life") a full licence to carry on insurance business under the Insurance (Prudential Supervision) Act 2010\* ("IPSA"). 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 IPSA 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 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 comprises AMP Life Limited (New Zealand Branch) No. 1 Statutory Fund (the "Statutory Fund") and AMP Life Limited (New Zealand Branch) Shareholder Fund ("Shareholder Fund"). The consolidated figures comprise the Parent 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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## 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 which 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 AMP Life Limited No. 1 Statutory 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 2013 were authorised by the Directors of AMP Life on 2 May 2014. 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 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 2013, 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 2013, including:

- *NZ IAS 1 Presentation of Items of Other Comprehensive Income*. The changes introduced by the revised NZ IAS 1 relate to presentation only, and have resulted in items in the Statement of comprehensive income being segregated between those that may eventually be realised in the Income statement in future periods and those that will not.
- *NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities*. These standards have changed the criteria for determining which entities are to be accounted for using the equity method in preparing consolidated financial statements and the required disclosures in relation to consolidated entities, joint arrangements, joint operations, associates and structured entities.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

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

#### *Changes in accounting policies (continued)*

- **NZ IFRS 13 Fair Value Measurement.** This standard has centralised the definition and guidance for measuring 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 7 Financial Instruments Disclosures.** This standard has amended disclosures to require information on the effect or potential effect of netting arrangements, including rights of set-off associated with the group's recognised financial assets and recognised financial liabilities.
- **NZ IAS 32 Financial Instruments Presentation.** These amendments have clarified the meaning of 'currently has a legally enforceable right to set off' and the application of offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous.
- **NZ IAS 19 Employee Benefits (revised 2011).** This standard removed the options for accounting for defined benefit liabilities, 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 revised the method of calculating the return on plan assets.

With the exception of NZ IAS 19 which required the restatement of prior year comparatives, these Standards and Interpretations have not had any material effect on the financial position or performance of the Branch.

#### *Nature and impact of adoption of NZ IAS 19 Employee Benefits (Revised 2011)*

The Branch applied NZ IAS 19 retrospectively in the current period in accordance with the transitional provisions as set out in the revised standard. The opening Statement of financial position of the earliest comparative period presented (1 January 2012) and the 2012 comparative figures have been restated.

This standard revises the method of accounting for defined benefit plans. One of the key changes under the standard is that the discount rate applied to the defined benefit liability is gross of tax while previously a net of tax discount rate was used.

Impact of changes on profit or loss (decrease in profit):

	2012 \$'000
Operating expenses	879
Profit for the year before income tax	(879)
Income tax expense	246
Profit from continuing operations after tax	(633)
Other comprehensive income	
Defined benefit plans – actuarial gains (net of tax)	1,254
Total comprehensive income for the year	621

Impact on equity (increase in equity)

	31 December 2012 \$'000	1 January 2012 \$'000
Deferred tax asset	(1,181)	(939)
Total assets	(1,181)	(939)
Defined benefit plan liabilities	4,218	3,355
Total liabilities	4,218	3,355
Net impact on equity	3,037	2,416

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

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

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

A number of new accounting standards have been issued but are not yet effective. The Branch has elected not to early adopt any new standards and amendments in these financial statements. These new standards and amendments when applied to future periods are not expected to have a material impact on the financial position or performance of the Branch other than as set out below:

- *NZ IFRS 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. This standard is mandatory for adoption by the Branch in the year ending 31 December 2017, however early application is permitted in certain circumstances. The financial impact to the Branch of adopting NZ IFRS 9 has not yet been quantified.
- *NZ IFRS 4 Insurance contracts:* Appendix C of NZ IFRS 4 was amended in order for Appendix C to be consistent with the changed legislative and regulatory environment in New Zealand. This standard is mandatory for adoption by the Branch in the year ending 31 December 2014. The financial impact to the Branch of adopting the changes to NZ IFRS 4 has not yet been quantified.

### (b) Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'). The financial statements also comply with International Financial Reporting Standards ('IFRS').

### (c) Principles of consolidation

These financial statements consolidate the financial information of controlled entities. Control arises from exposure, or rights, to variable returns from involvement with an entity where the Branch has the ability to affect those returns through its power over the entity. 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 the Statutory Fund. Income, expenses, assets and liabilities attributable to policyholder activities within the Statutory Fund are consolidated into the Branch financial statements, along with those attributable to the Shareholder Fund.

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 entities attributable to non-controlling interests is disclosed as a separate line item in the Statement of financial position. In the Income statement and 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 Shareholder of AMP Life.

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.

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

#### (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 AMP Life are investment contracts and life insurance contracts.

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

##### *Life insurance contracts*

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

##### *Assets measurement basis*

Investment contract liabilities are measured at fair value as described in note 2(r) and life insurance contract liabilities are measured as described in Note 2(q). 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 measured at fair value through profit or loss. Reinsurance and other recoveries are discounted to present value. Receivables that do not back investment contract and life insurance contract liabilities are measured at amortised cost using the effective interest method, 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.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (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. Transaction costs are expensed as incurred in profit or loss. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the 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 schemes at the reporting date.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 2(o).

#### *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 Shareholder Fund in controlled entities (excluding managed investment schemes) are measured at cost less any accumulated impairment losses. Investments in controlled entities by the Statutory Fund 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

Associated entities are defined as those entities over which the Branch has significant influence but there is no capacity to control. 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (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.

### (k) Impairment of assets

Assets measured at fair value, where changes in value are reflected in the Income statement, are not subject to impairment testing. As a result, all financial assets measured at fair value through profit or loss are not subject to impairment testing. Other assets such as 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. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is recognised in the Income statement, measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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.

### (l) Taxes

#### *Income tax expense*

Income tax expense/credit 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 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/credit recognised in the Income statement arising in the Branch reflects tax imposed on the shareholder as well as policyholders.

Investment contract liabilities and life insurance contract liabilities are established gross 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 Life Act purposes is calculated on a before tax basis.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (l) Taxes (continued)

#### *Deferred tax*

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

### (m) Payables

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

### (n) 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.

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

#### (n) 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.

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

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.

Derivatives held in the Branch are not designated as hedging instruments. As such, 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.

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

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

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (q) Life insurance contract liabilities

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

Under MoS the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service). The 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 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 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 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 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, 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (q) 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 Australian Prudential Regulation Authority (APRA) Life Insurance 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(x)).

### (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) 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 translated at the rate of exchange ruling at the reporting date with exchange gains and losses recognised in the Income statement.

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

### (t) 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(u).
- (ii) amounts credited directly to investment contract liabilities. See note 2(r).

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (u) 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(r).

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(x).

Fees for on-going 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 the Branch are recognised as revenue when that act has been completed.

### (v) 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 include realised gains and losses being the change in value between the previously reported value and the amount received on de-recognition of the asset or liability and unrealised gains and losses being changes in the fair value of financial assets recognised in the period.

### (w) 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(r)).

### (x) Operating expenses

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

#### *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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (y) 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.

### (z) Superannuation funds

Certain controlled entities are participating employers in the AMP (New Zealand) Staff Superannuation Plan (the 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. 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.

### (aa) 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 income statement and the assets and liabilities are presented separately on the face of the statement of financial position.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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## 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 statements 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. Control arises from exposure, or rights, to variable returns from involvement with an entity, where the Branch has the ability to affect those returns through its power over the entity.

Judgement is applied by management in assessing whether control exists. Judgement is applied in determining the relevant activities of each entity and determining whether AMP Life has power over these activities. This involves assessment of the purpose and design of the entity, identification of the activities that significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights, contractual arrangements with the entity or other parties and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Consideration is also given to the practical ability of other parties to exercise their rights.

Judgement is also applied in identifying the variable returns of each entity and assessing AMP Life's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

### (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 20.

### (c) Tax

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 27 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 Board of AMP Life Limited is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary. Further detail on the determination of life insurance contract liabilities is set out in Note 17.

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

#### (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.

#### (g) Defined benefit plan liabilities

A subsidiary of the Shareholder Fund operates a defined benefit pension plan which requires contributions to the Fund to be made to a separately administered fund. The fair value of the defined benefit plan liability of the Branch is measured using actuarial valuations. An actuarial valuation involved making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligations is highly sensitive to changes in the assumptions. All assumptions are reviewed at each valuation date. The discount rate is determined by reference to the Government bond rate.

Further detail about the defined benefit plan liabilities is set out in note 23.

#### (h) Intangible assets

Accounting standards require management to assess, at each reporting period, whether there are any indicators of impairment in relation to the carrying value in intangible assets. Where an impairment indicator is identified, and at least annually for assets with indefinite useful lives, the recoverable amount of the asset must be determined and compared to the carrying amount.

Judgement is applied by management in assessing whether there are any impairment indicators and, where required, determining the recoverable amount. Further detail about intangible assets is set out in note 13.

### 4. SEGMENT INFORMATION

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

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 5. REVENUE AND INVESTMENT INCOME

	Note	Consolidated		Parent	
		2013	2012	2013	2012
		\$000	\$000	\$000	\$000
<b>(a) Fee revenue</b>					
Investment management fees		6,870	6,195	3,716	2,470
Service fees <sup>(1)</sup>		163,792	154,897	-	-
<b>Total fee revenue</b>		<b>170,662</b>	<b>161,092</b>	<b>3,716</b>	<b>2,470</b>
<b>(b) Other revenue</b>					
Other revenue		6,245	3,882	-	-
<b>Total other revenue</b>		<b>6,245</b>	<b>3,882</b>	<b>-</b>	<b>-</b>
<b>(c) Investment gains and (losses)</b>					
Interest <sup>(2)</sup>					
- other entities		114,383	101,572	51,996	47,219
Dividends and distributions					
- subsidiaries		-	-	-	1,019
- associated entities		9,896	9,276	34	32
- related parties		13,184	17,389	-	702
- other entities		710	2,279	1	1
Net realised and unrealised gains and losses <sup>(3)</sup>		(73,376)	167,014	8,245	240,945
Other investment income		(399)	536	(826)	(80)
<b>Total investment gains and (losses)</b>		<b>64,398</b>	<b>298,066</b>	<b>59,450</b>	<b>289,838</b>
<b>Investments in financial assets at fair value through profit or loss</b>					
Equity securities and listed managed investment schemes		1,137	6,561	290,130	196,870
Debt securities		29,620	48,163	2,042	1,628
Investments in unlisted investment schemes		244,999	145,933	88	(2,732)
Derivative financial assets		(218,215)	85,590	(234,482)	91,851
<b>Investments in financial assets at amortised cost</b>					
Debt securities		3,586	3,797	-	-
<b>Other investment gains</b>					
Bank and other		3,670	7,486	2,498	2,301
Miscellaneous income		(399)	536	(826)	(80)
<b>Total investment gains and (losses)</b>		<b>64,398</b>	<b>298,066</b>	<b>59,450</b>	<b>289,838</b>

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

<sup>(2)</sup> Interest includes interest income from financial assets measured at fair value through profit or loss, designated as such upon initial recognition.

<sup>(3)</sup> Net realised and unrealised gains and losses include net gains and losses on financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 6. EXPENSES

	Note	Consolidated		Parent	
		2013	2012	2013	2012
		<i>Restated</i>			
		\$000	\$000	\$000	\$000
<b>(a) Operating expenses</b>					
Commission expense		66,722	64,804	18,164	22,291
Investment management expenses		17,986	12,552	1,824	1,505
<b>Fee and commission expenses</b>		<b>84,708</b>	<b>77,356</b>	<b>19,988</b>	<b>23,796</b>
Wages and salaries		57,305	55,187	-	-
Superannuation costs – defined contribution scheme		5,013	4,107	-	-
Other staff costs		998	713	-	-
<b>Staff and related expenses</b>		<b>63,316</b>	<b>60,007</b>	<b>-</b>	<b>-</b>
Service fee expense – related parties	28(c)(ii)	15,346	11,548	42,497	46,386
Service fee expense recovery – related parties	28(d)(ii)	(8,442)	(14,368)	-	-
Auditor's remuneration	29	643	757	290	304
Minimum lease payments - Operating lease		3,998	4,905	-	-
Depreciation and amortisation		7,764	3,823	-	-
IT and communication		17,774	25,253	1	3
IT consulting		6,874	16,420	2	23
Other expenses		33,046	36,022	857	1,886
<b>Other operating expenses</b>		<b>77,003</b>	<b>84,360</b>	<b>43,647</b>	<b>48,602</b>
<b>Total operating expenses</b>		<b>225,027</b>	<b>221,723</b>	<b>63,635</b>	<b>72,398</b>
<b>(b) Finance costs</b>					
Interest (income) expense on borrowings		-	15	-	5
Other finance costs		283	104	294	104
<b>Total finance costs</b>		<b>283</b>	<b>119</b>	<b>294</b>	<b>109</b>

## 7. INCOME TAX

		Consolidated		Parent	
		2013	2012	2013	2012
		<i>Restated</i>			
		\$000	\$000	\$000	\$000
<b>(a) Analysis of income tax (credit) expense</b>					
Current tax expense		35,329	39,317	32,932	31,681
(Decrease) / increase in deferred tax assets		(20,918)	(2,988)	(23,760)	-
(Decrease) / increase in deferred tax liabilities		(66,707)	13,180	(66,707)	13,180
Under / (over) provided in previous years including amounts attributable to policyholders:					
- current tax		(7,681)	3,668	(3,497)	646
- deferred tax		6,835	(2,625)	2,837	-
<b>Income tax (credit) expense</b>		<b>(53,142)</b>	<b>50,552</b>	<b>(58,195)</b>	<b>45,507</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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% (2012: 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% (2012: 28%).

	Consolidated		Parent	
	2013	2012	2013	2012
	<i>Restated</i>			
	\$000	\$000	\$000	\$000
Profit (loss) before income tax from continuing operations	(13,295)	135,257	(30,053)	113,860
Profit (loss) before tax from discontinued operations	-	(13,688)	-	-
Total profit (loss) before income tax	(13,295)	121,569	(30,053)	113,860
Policyholder tax credit (expense) recognised as part of the change in policyholder liabilities in determining profit before income tax	35,207	(37,495)	35,207	(37,495)
<b>Profit before income tax excluding policyholder tax</b>	<b>21,912</b>	<b>84,074</b>	<b>5,154</b>	<b>76,365</b>
Prima facie shareholder tax at the rate of 28% (2012: 28%)	6,135	23,541	1,443	21,382
Tax effect of the differences between recognition of income statement items for accounting and those deductible / assessable in calculating taxable income:				
Shareholder impact of life tax treatment	(16,073)	(7,242)	(16,073)	(7,242)
Non-taxable or deductible items	172	449	-	-
Investment revenue related items	(9,947)	(3,298)	(10,501)	(5,349)
Other items	39	(85)	(4)	(30)
Over / (under) provided in previous years after excluding amounts attributable to policyholders	1,739	(352)	2,147	(749)
Income tax (credit) expense attributable to shareholder	(17,935)	13,013	(22,988)	8,012
Income tax (credit) expense attributable to policyholders	(35,207)	37,495	(35,207)	37,495
<b>Aggregate Income Tax (credit) expense</b>	<b>(53,142)</b>	<b>50,508</b>	<b>(58,195)</b>	<b>45,507</b>
Income Tax (credit) expense attributable to:				
Continuing operations	(53,142)	50,552	(58,195)	45,507
Discontinued operations	-	(44)	-	-
	(53,142)	50,508	(58,195)	45,507
<b>(c) Analysis of deferred tax asset</b>				
Fair value adjustment on investments	23,677	-	23,677	-
Accruals and provisions	12,602	12,786	83	-
Plant and equipment and capitalised costs	(2,000)	3,048	-	-
Defined benefit superannuation scheme	1,033	3,219	-	-
Other	602	722	-	-
<b>Total deferred tax assets</b>	<b>35,914</b>	<b>19,775</b>	<b>23,760</b>	<b>-</b>
<b>(d) Analysis of deferred tax liability</b>				
Deferred acquisition cost within policy liabilities	143,931	161,439	143,931	161,439
Fair value adjustments on investments	-	43,565	-	43,565
Accruals and provisions	-	(78)	-	(78)
Non-Life risk margins	2,477	-	2,477	-
Portfolio Investment Entity allocated income	18,078	23,430	18,078	23,430
<b>Total deferred tax liabilities</b>	<b>164,486</b>	<b>228,356</b>	<b>164,486</b>	<b>228,356</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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 (2012: 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	
	2013	2012
	\$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	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Closing balance	287,106	228,028	234,644	239,207

## 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	
	2013	2012
	\$000	\$000
Revenue	-	6,700
Expenses	-	(7,213)
Loss on Disposal	-	(13,175)
Profit (loss) for the year before income tax	-	(13,688)
Income tax (expense) credit	-	44
Profit (loss) from discontinued operations for the year	-	(13,644)
Profit (loss) attributable to non-controlling interests	-	7,557
Profit (loss) from discontinued operations attributable to the shareholder of AMP Life Limited	-	(6,087)

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 8. DISCONTINUED OPERATIONS (CONTINUED)

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

	2013 \$000	2012 \$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)
<b>Net assets attributable to discontinued operations</b>	<b>-</b>	<b>19,537</b>

(c) Consideration received or receivable:

	2013 \$000	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
<b>Loss on disposal after income tax</b>	<b>-</b>	<b>(13,131)</b>

(d) Net cash flows of operations disposed of:

	2013 \$000	2012 \$000
Operating activities	-	73
Financing activities	-	(73)
<b>Net cash inflow / (outflow)</b>	<b>-</b>	<b>-</b>

## 9. RECEIVABLES

	Consolidated		Parent	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Investment income receivable <sup>(1)</sup>	6,267	4,999	2,428	2,142
Investment sales and margins accounts receivable <sup>(1)</sup>	98,161	954	95,310	-
Life insurance contract premiums receivable	30,755	30,427	30,755	30,427
Reinsurance and other recoveries receivable	5,382	6,580	5,382	6,580
Reinsurers' share of life insurance contract liabilities	28,936	12,668	28,936	12,668
Other receivables				
- related entities	9,466	24,999	1,755	1,756
- other entities	28,625	25,024	6,841	6,218
<b>Total receivables</b>	<b>207,592</b>	<b>105,651</b>	<b>171,407</b>	<b>59,791</b>

For the Parent \$16m (2012: nil) and for the Group \$23.2m (2012: \$7.4m) of total receivables is expected to be recovered more than 12 months from reporting date.

<sup>(1)</sup> Receivables backing insurance and investment liabilities and carried at fair value.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 10. INVESTMENTS IN FINANCIAL ASSETS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
<b>Investments in financial assets measured at fair value through profit or loss</b>				
Investments in controlled entities backing insurance contract liabilities and investment liabilities	-	-	1,805,826	1,515,700
Equity securities and listed managed investment schemes	11,469	10,484	-	-
Debt securities	1,095,176	949,888	51,488	36,011
Investments in unlisted managed investment schemes	1,381,882	1,332,613	15,482	16,251
Derivative financial assets <sup>(1)</sup>	81,670	224,632	32,098	173,244
<b>Total investment in financial assets measured at fair value through profit or loss</b>	<b>2,570,197</b>	<b>2,517,617</b>	<b>1,904,894</b>	<b>1,741,206</b>
<b>Investments in financial assets measured at amortised cost</b>				
Investment in controlled entities by the Shareholder Fund	-	-	2,000	2,005
Loans	49,932	53,606	-	-
Loans to controlled entities	-	-	1,071,152	1,071,146
Loans to related parties	4,025	-	-	-
<b>Total investments measured at amortised cost</b>	<b>53,957</b>	<b>53,606</b>	<b>1,073,152</b>	<b>1,073,151</b>
<b>Total investment in financial assets</b>	<b>2,624,154</b>	<b>2,571,223</b>	<b>2,978,046</b>	<b>2,814,357</b>

<sup>(1)</sup>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. OTHER ASSETS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Prepayments	1,740	2,210	-	-
<b>Total other assets</b>	<b>1,740</b>	<b>2,210</b>	<b>-</b>	<b>-</b>

(i) All other assets are expected to be recovered within 12 months from the reporting date.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 12. PLANT AND EQUIPMENT

31 December 2013	Office fittings, furniture and equipment \$000	Computer & communication equipment \$000	Total \$000
<b>Consolidated</b>			
<b>Plant and equipment</b>			
Gross carrying amount	13,335	17,689	31,024
Less: accumulated depreciation and impairment losses	(7,283)	(10,086)	(17,369)
<b>Plant and equipment at written down value</b>	<b>6,052</b>	<b>7,603</b>	<b>13,655</b>
<b>Movements in plant and equipment</b>			
Balance at the beginning of the year	4,895	6,594	11,489
Additions	2,493	2,788	5,281
Disposals	(19)	-	(19)
Depreciation expense for the period	(1,317)	(1,779)	(3,096)
<b>Balance at the end of the year</b>	<b>6,052</b>	<b>7,603</b>	<b>13,655</b>
<b>31 December 2012</b>	<b>Office fittings, furniture and equipment \$000</b>	<b>Computer &amp; communication equipment \$000</b>	<b>Total \$000</b>
<b>Consolidated</b>			
<b>Plant and equipment</b>			
Gross carrying amount	10,864	14,901	25,765
Less: accumulated depreciation and impairment losses	(5,969)	(8,307)	(14,276)
<b>Plant and equipment at written down value</b>	<b>4,895</b>	<b>6,594</b>	<b>11,489</b>
<b>Movements in plant and equipment</b>			
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
<b>Balance at the end of the year</b>	<b>4,895</b>	<b>6,594</b>	<b>11,489</b>

There was no restriction on the title of any assets as at 31 December 2013 or 2012.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 13. INTANGIBLES

31 December 2013 Consolidated		Capitalised Costs \$000	Total \$000
<b>Intangibles</b>			
Gross carrying amount		49,012	49,012
Less: accumulated amortisation and impairment losses		(28,234)	(28,234)
<b>Intangibles at written down value</b>		<b>20,778</b>	<b>20,778</b>
<b>Movements in intangibles</b>			
Balance at the beginning of the year		19,916	19,916
Additions		168	168
Amortisation expense		(4,668)	(4,668)
Additions – assets under construction		5,362	5,362
<b>Balance at the end of the year</b>		<b>20,778</b>	<b>20,778</b>

31 December 2012 Consolidated	Goodwill \$000	Capitalised Costs \$000	Total \$000
<b>Intangibles</b>			
Gross carrying amount	-	43,482	43,482
Less: accumulated amortisation and impairment losses	-	(23,566)	(23,566)
<b>Intangibles at written down value</b>	-	<b>19,916</b>	<b>19,916</b>
<b>Movements in intangibles</b>			
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)
<b>Balance at the end of the year</b>	-	<b>19,916</b>	<b>19,916</b>

## 14. PAYABLES

	Consolidated		Parent	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Life insurance contracts in process of settlement	18,974	22,919	18,974	22,919
Other payables				
- subsidiaries and related entities	38,981	8,871	312,079	93,329
- reinsurers	2,297	5,682	2,297	5,682
- other entities	23,814	25,247	7,297	7,395
<b>Total payables</b>	<b>84,066</b>	<b>62,719</b>	<b>340,647</b>	<b>129,325</b>

(i) \$1.9m (2012: \$0.9m) of payables are expected to be settled more than 12 months from reporting date.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 15. PROVISIONS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
<b>(a) Provisions</b>				
Employee entitlements	11,176	12,156	-	-
Loyalty bonuses	21,253	21,421	-	-
Rectification	4,385	5,707	-	-
Other	2,159	1,708	-	-
<b>Total provisions</b>	<b>38,973</b>	<b>40,992</b>	<b>-</b>	<b>-</b>

Consolidated	Employee entitlements	Loyalty bonuses	Rectification	Other	Total
	\$000	\$000	\$000	\$000	\$000
<b>(b) Movements in provision</b>					
Balance at the beginning of the year	12,156	21,421	5,707	1,708	40,992
Additional provisions made during the year	3,756	1,494	1,064	2,370	8,684
Provision transferred from related parties	-	-	2,000	500	2,500
Provisions used during the year	(4,736)	(1,662)	(632)	(1,438)	(8,468)
Reversal of unused provision	-	-	(3,754)	(981)	(4,735)
<b>Balance at the end of the year</b>	<b>11,176</b>	<b>21,253</b>	<b>4,385</b>	<b>2,159</b>	<b>38,973</b>

### Employee entitlements

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

### Loyalty Bonuses

For some financial products managed by a subsidiary of the Shareholder Fund, an amount is payable to customers primarily depending upon the length of time those customers have remained within the product plan. 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

### 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 year.

### Other Provisions

Other provisions include restructuring and make good provisions. The restructuring provision relates to costs incurred in the process of significantly restructuring operational areas of the business. Prior to 31 December 2013 the Branch undertook action, incurred the obligation and was committed to this expenditure. 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 make good provision represents the future obligation for make good costs relating to two of the current premises occupied by members of the consolidated group. The provisions are expected to be utilised by 2019 and 2021 respectively.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 15. PROVISIONS (CONTINUED)

<b>Consolidated</b>	<b>Employee entitlements</b>	<b>Loyalty bonuses</b>	<b>Rectification</b>	<b>Other</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>2013</b>					
Current	10,759	1,488	4,385	1,570	18,202
Non-Current	417	19,765	-	589	20,771
	<b>11,176</b>	<b>21,253</b>	<b>4,385</b>	<b>2,159</b>	<b>38,973</b>

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

## 16. SHARE BASED PAYMENTS

### (a) Summary of AMP's share-based payment plans

A subsidiary of the Shareholder Fund is one of a number of participating employers within the AMP Limited share-based payments scheme.

The narrative below (with the exception of the first table) relates to the scheme as a whole, of which the Company's employees only represent a portion of participating employees.

AMP Limited (AMP) has a number of employee share-based payment plans. Share-based payments place employees participating in those plans (participants) in the position of the shareholder, and in doing so, reward employees for the generation of value to shareholders. Information on plans which AMP currently offers is provided below.

The following table shows the expense recorded by the Branch for AMP share-based payment plans during the year:

	<b>Consolidated and Parent</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
<b>Plans currently offered</b>		
Performance rights	368	336
Share rights	619	295
Restricted shares	15	83
Employee share acquisition plan - matching shares	1	3
<b>Total share-based payments expense</b>	<b>1,003</b>	<b>717</b>

### (b) Performance rights

#### *Plan description*

The CEO and his direct reports, as well as selected senior executives, are required to take their long-term incentive (LTI) awards in the form of performance rights. This is to ensure that those executives, who are most directly able to influence company performance, are appropriately aligned with the interests of shareholders. The LTI awards of other participants are comprised of either a mix of performance rights and share rights, or share rights only.

A performance right is a right to acquire one fully paid ordinary share in AMP Limited after a three-year performance period at no cost to the participant (i.e. effectively a share option with a zero exercise price), provided a specific performance hurdle is met. Prior to conversion into shares (vesting), performance rights holders do not receive dividends or have other shareholder benefits (including any voting rights). From September 2011, performance rights may be settled through a cash payment in lieu of shares, at the discretion of the board.

AMP has, from time to time historically, offered share bonus rights to employees in overseas domiciles when it is not possible or tax-efficient to grant performance rights. The terms and conditions of the share bonus rights are identical to the terms and conditions of the performance rights, except settlement is in cash rather than equity instruments. These share bonus rights were last granted to employees in 2010.

# AMP Life Limited (New Zealand Branch)

## Notes to the Financial Statements for the year ended 31 December 2013

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### 16. SHARE BASED PAYMENTS (CONTINUED)

#### (b) Performance rights (continued)

##### *The performance hurdle*

Historically, LTI awards in the form of performance rights were subject to a single relative total shareholder return (TSR) performance hurdle. After an extensive review of market practices, conducted in 2012, the board determined that AMP should introduce a return on equity (RoE) performance measure, in addition to a TSR measure.

The vesting of performance rights granted since the 2013 LTI award are now be based on two performance hurdles as follows:

- 50 per cent of the LTI award value, granted as performance rights, will be subject to AMP's TSR performance relative to the top industrial companies in the S&P/ASX 100 Index (TSR tranche), and
- 50 per cent of the LTI award value, granted as performance rights, will be subject to a RoE measure (RoE tranche).

The number of performance rights that vest is determined as follows:

**TSR tranche:** Vesting of these performance rights is dependent on AMP's TSR performance relative to a comparator group of Australian listed companies over a three-year performance period. TSR measures the benefit delivered to shareholders over the given period, which includes dividend payments, capital returns and movement in the share price. The performance hurdle was chosen because it requires participants to outperform major ASX listed companies before the awards generate any value.

**RoE tranche:** Vesting of these performance rights is based on AMP's RoE performance for the year ending 31 December 2015. Prior to the 2013 grant being awarded, the board determined the threshold and maximum RoE performance targets (expressed as percentage outcomes) to be achieved for the year ending 31 December 2015. A RoE hurdle was chosen as it drives a strong capital discipline which is a key contributor to creating sustainable shareholder value.

##### *Conversion to shares*

If the awards vest, they are automatically converted to shares on behalf of participants. Upon conversion, participants become entitled to shareholder benefits, including dividends and voting rights. The board has the discretion to satisfy vested rights by either acquiring shares on-market or through the issuance of shares. AMP's practice has been, and intention is to continue, to source the shares to satisfy LTI awards on-market, so that the issue of LTI's does not dilute the value of AMP Limited shares. In the case of the CEO, the vesting of shares may only be provided by AMP procuring the transfer of shares purchased on-market.

##### *Treatment of performance rights on ceasing employment and change of control*

Typically, unvested LTI awards lapse at the end of the employee's notice period if the participant resigns from AMP or their employment is terminated for misconduct or inadequate performance. In other cases, such as retirement and redundancy, LTI awards may be retained by the participant, with vesting continuing to be subject to the same vesting conditions as if they had remained in AMP employment. In the event that AMP is subject to a takeover or change of control, unvested performance rights, granted prior to September 2011, typically vest.

Commencing from the performance rights granted in September 2011, the board has the discretion to determine an alternative treatment on cessation of employment and change of control (i.e. to determine that the LTI awards would lapse, are retained or vest when they would not have otherwise), if deemed appropriate in the light of specific circumstances.

##### *Plan valuation*

The fair value of a TSR performance right has been calculated as at the grant date, by external consultants using a simulation technique known as a Monte Carlo simulation. Fair value of the TSR performance rights has been discounted for the probability of not meeting the TSR performance hurdles. The fair value of a RoE performance right has been calculated as at the grant date, by external consultants using a 'discounted cash flow' methodology. Fair value has been discounted for the present value of dividends expected to be paid during the vesting period to which the participant is not entitled. RoE is a non-market based performance hurdle and therefore, in accordance with NZ IFRS 2, allowance cannot be made for the impact of this hurdle in determining the award's fair value. In determining the share-based payments expense, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the performance period.

For the purposes of the valuation it is assumed performance rights are exercised as soon they have vested. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's actual historic dividend yield and volatility over an appropriate period.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 16. SHARE BASED PAYMENTS (CONTINUED)

### (b) Performance rights (continued)

*Plan valuation (continued)*

The following table shows the factors which were considered in determining the independent fair value of the performance rights granted during 2013 and the comparative period (2012):

Grant Date	Share Price AUD	Contractual Life	Dividend Yield	Volatility <sup>1</sup>	Risk- free rate <sup>1</sup>	TSR Performance hurdle discount	RoE Performance hurdle discount <sup>2</sup>	TSR performance rights fair value AUD	RoE performance rights fair value AUD
6/06/2013	\$4.97	3.0 years	5.6%	23%	2.5%	60%	0%	\$2.00	\$4.21
7/06/2012	\$3.85	2.7 years	6.3%	26%	2.3%	67%	n/a	\$1.28	n/a
9/09/2011	\$4.15	2.9 years	5.9%	34%	3.7%	54%	n/a	\$1.92	n/a

<sup>1</sup> Applies to performance rights subject to a relative TSR performance hurdle only. These factors do not apply to performance rights subject to an RoE performance hurdle.

<sup>2</sup> In accordance with the accounting standard NZ IFRS 2, allowance cannot be made for the impact of a non-market based performance hurdle in determining fair value.

The following table shows the movement in performance rights (and share bonus rights with performance conditions) outstanding during the period:

Grant Date	Exercise Period	Exercise price AUD	Balance at 1 Jan 2013	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2013 <sup>1</sup>
8/09/2010	01/08/2013- 31/07/2015	Nil	93,923	-	-	(93,923)	-
9/09/2011	n/a <sup>2</sup>	Nil	159,355	-	-	-	159,355
7/06/2012	n/a <sup>2</sup>	Nil	223,218	-	-	-	223,218
6/06/2013	n/a <sup>2</sup>	Nil	-	-	168,454	-	168,454
<b>Total</b>			<b>476,496</b>	<b>0</b>	<b>168,454</b>	<b>(93,923)</b>	<b>551,027</b>

<sup>1</sup>The weighted average remaining contractual life of performance rights outstanding at the end of the period is 1.4 years.

<sup>2</sup>The performance rights granted during 2011, 2012 and 2013 have no exercise period as they are automatically exercised upon vesting.

From the end of the financial year and up to the date of this report, no performance rights have been issued, no performance rights have been exercised, and no performance rights have lapsed. Of the performance rights outstanding at the end of the period, none have vested or become exercisable.

### (c) Share rights

*Plan description*

As described above, LTI participants below the CEO and his direct reports may be awarded share rights as part of their overall LTI award.

A share right is a right to acquire one fully paid ordinary share in AMP Limited after a specified service period at no cost to the participant, provided a specific service condition is met. The service period is typically three years, but may vary where the share rights are awarded to retain an employee for a critical period. Prior to conversion into shares (vesting), share rights holders do not receive dividends or have other shareholder benefits (including any voting rights).

As this program is designed as a means of recognising and retaining employees, no performance hurdles apply, other than continued service for the duration of the three-year period.

AMP has, from time to time historically, offered share bonus rights without performance conditions to employees in overseas domiciles when it is not possible or tax-efficient to grant share rights or restricted shares. The terms and conditions of the share bonus rights are identical to the terms and conditions of the share rights, except settlement is in cash rather than equity instruments. These share bonus rights were last granted to employees in 2010.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 16. SHARE BASED PAYMENTS (CONTINUED)

### (c) Share rights (continued)

#### *Conversion to shares*

If the awards vest, they are automatically converted to shares on behalf of participants. Upon conversion, participants become entitled to shareholder benefits, including dividends and voting rights. The board has the discretion to satisfy vested rights by either acquiring shares on-market or through the issuance of shares. AMP's practice has been, and intention is to continue, to source the shares to satisfy LTI awards on-market, so that the issue of LTIs does not dilute the value of AMP Limited shares.

#### *Treatment of share rights on ceasing employment and change of control*

Typically, unvested share rights lapse if the participant resigns from AMP or is terminated for misconduct or inadequate performance. In other cases, such as retirement and redundancy, the participant typically retains their share rights at the board's discretion. In the event that AMP is subject to a takeover change of control, treatment of unvested share rights is subject to the board's discretion.

#### *Plan valuation*

The fair value of share rights has been calculated as at the grant date, by external consultants using a 'discounted cash flow' methodology. Fair value has been discounted for the present value of dividends expected to be paid during the vesting period to which the participant is not entitled.

In determining the share-based payments expense, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the performance period.

For the purposes of the valuation it is assumed share rights are exercised as soon they have vested. Assumptions regarding the dividend yield have been estimated based on AMP's actual historic dividend yield over an appropriate period.

#### *STI deferral plan*

The nominated executives and selected other senior leaders who have the ability to impact AMP's financial soundness, participate in the AMP STI deferral plan. The plan requires that 40 per cent of a participant's STI award be delivered in rights to AMP shares (share rights). The share rights convert to AMP Limited shares (i.e. vest) after a two-year deferral period. Vesting is subject to on-going employment, compliance with AMP policies and the board's discretion.

#### *STI match plan*

For each given year, high potential employees at a senior leader level are eligible for nomination to participate in the STI match plan, which provides an award of share rights to the value of 50 per cent of the individual's STI. The STI match award is provided in addition to the STI cash opportunity. Employees at this level are not eligible to participate in AMP's long-term incentive plan. As the STI match is based on the STI plan, the number of share rights awarded to the participant depends on the individual's contribution to company performance during the financial year.

STI match share rights convert to AMP Limited shares (i.e. vest) after a two-year deferral period. Vesting is subject to on-going employment, compliance with AMP policies and the board's discretion.

The following table shows the factors which were considered in determining the independent fair value of the share rights granted during 2013 and the comparative period (2012):

Grant Date	Share Price AUD	Contractual Life	Dividend Yield	Dividend discount	Fair value AUD
6/06/2013	\$4.97	3.0 years	5.6%	15%	\$4.21
30/04/2013	\$5.40	1.8 years	5.6%	10%	\$4.87
7/06/2012	\$3.85	2.7 years	6.3%	17%	\$3.19
27/04/2012	\$4.25	1.8 years	6.3%	11%	\$3.78

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 16. SHARE BASED PAYMENTS (CONTINUED)

### (c) Share rights (continued)

The following table shows the movement in share rights (and share bonus rights without performance conditions) outstanding during the period.

Grant Date	Exercise Period	Exercise price AUD	Balance at 1 Jan 2013	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2013 <sup>1</sup>
08/09/2010	01/08/2013-31/07/2015	Nil	10,219	(10,219)	-	-	-
09/09/2011	n/a <sup>2</sup>	Nil	53,307	-	-	-	53,307
27/04/2012	n/a <sup>2</sup>	Nil	79,239	-	-	-	79,239
27/04/2012	n/a <sup>2</sup>	Nil	33,246	-	-	-	33,246
07/06/2012	n/a <sup>2</sup>	Nil	69,087	-	-	-	69,087
30/04/2013	n/a <sup>2</sup>	Nil	-	-	90,608	(2,325)	88,283
06/06/2013	n/a <sup>2</sup>	Nil	-	-	62,149	-	62,149
<b>Total</b>			<b>245,098</b>	<b>(10,219)</b>	<b>152,757</b>	<b>(2,325)</b>	<b>385,311</b>

<sup>1</sup> The weighted average remaining contractual life of share rights (and share bonus rights without performance conditions) outstanding at the end of the period is 0.9 years.

<sup>2</sup> The share rights granted during 2011, 2012 and 2013 have no exercise period as they are automatically exercised upon vesting.

From the end of the financial year and up to the date of this report, no share rights have been issued, no share rights have been exercised, and no share rights have lapsed. Of the share rights outstanding at the end of the period, none have vested or become exercisable.

### (d) Restricted shares

#### Plan description

From time to time, AMP awards restricted shares to retain critical employees. Additionally, prior to 2011, Australian LTI participants were eligible to take some of their award in restricted shares (rather than share rights). In overseas domiciles, including New Zealand, when it is not possible or tax-efficient to grant share rights or restricted shares, AMP has from time to time historically offered share bonus rights without performance conditions. The terms and conditions of the share bonus rights are identical to the terms and conditions of the restricted shares, except settlement is in cash rather than equity instruments. These share bonus rights were last granted to employees in 2010.

A 'restricted share' is an ordinary AMP share that has a holding lock in place until the specified vesting period ends. The vesting period is typically three years, but may vary where the restricted shares are awarded to retain an employee for a critical period. During this time, the holder is eligible for dividends, but is unable to sell, transfer or hedge their award.

As this program is designed as a means of recognising and retaining employees, no performance hurdles apply, other than continued service for the duration of the three-year holding lock. If the individual resigns from AMP (or employment is terminated for misconduct or inadequate performance) during the holding period, the shares are forfeited.

In cases such as retirement and redundancy, the individual retains their restricted shares; however the holding lock remains in place until the end of the three-year vesting period. Restricted shares are bought on market and granted at no cost to employees.

#### Plan valuation

The fair value of restricted shares has been determined as the market price of AMP ordinary shares on the grant date. As employees holding restricted shares are entitled to dividend payments, no adjustment has been made to the fair value in respect of future dividend payments. In determining the share-based payments expense for the period, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the vesting period.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 16. SHARE BASED PAYMENTS (CONTINUED)

### (d) Restricted shares (continued)

The following table shows the number of restricted shares that were granted during 2013 and the comparative period (2012), and the fair value per instrument of restricted shares as at the grant date.

Grant Date	Number granted	Weighted average fair value AUD
2013	0	n/a <sup>1</sup>
2012	0	n/a <sup>1</sup>

<sup>1</sup> No restricted shares were granted to New Zealand employees during 2012 and 2013.

### (e) Employee Share Acquisition Plan

#### Plan description

From time to time, AMP has provided employees and executives with the opportunity to become shareholders in AMP through the employee share acquisition plan (ESAP), typically by way of salary sacrificing their fixed remuneration or short-term incentive to acquire shares. Depending on the terms of the particular award, participants may be entitled to receive matching shares for shares acquired under the ESAP (e.g. the most recent awards provided one free share for every 10 shares acquired via salary sacrifice). Additionally, AMP can provide employees with free shares under the ESAP. Where the awards are acquired at no cost to the participant, service-based conditions must be met for the participant to receive their full entitlement. There are no performance hurdles applying to the plan as it is primarily designed to encourage employee share ownership.

The plan was suspended mid-way through 2009 in Australia due to the changes to the taxation treatment of employee share plan awards. Consequently, no shares have been acquired by Australian employees under the ESAP plan since mid-2009. The plan continues to operate in New Zealand.

If applicable, matching shares are bought on market through an independent third party.

Participants who cease to be employed within the AMP group within the three-year holding period may lose their entitlement to some or all of their matching shares or free shares, depending on the reason for leaving the company. To receive the maximum entitlement, participants must be employed by AMP for the whole three-year period.

#### Plan valuation

All awards made during 2013, and the comparative year (2012), were offers to salary sacrifice to acquire shares, with matching shares awarded on a one-for-ten basis after a three-year vesting period. Each matching share has been valued by external consultants as the face value of an AMP ordinary share at the date the salary sacrifice shares were acquired, less the present value of the expected dividends (to which the participant is not entitled until the end of the vesting period). The number of matching shares expected to be granted is estimated based on the average number of shares held in the ESAP by each employee at the beginning of each year. In determining the share-based payments expense for the period, the number of matching shares expected to be granted has been adjusted to reflect the number of employees expected to remain with AMP until the end of the three-year vesting period.

The following table shows the number of matching shares expected to be granted based on the shares purchased by employees under the ESAP during the current period and the comparative period, and the fair value.

Grant Date	Estimated number of matching shares to be granted	Weighted average fair value AUD
2013 - various	421	\$4.14
2012 - various	535	\$3.51

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 17. LIFE INSURANCE CONTRACTS

	Consolidated and Parent	
	2013	2012
	\$000	\$000
<b>(a) Analysis of life insurance contract premium and related revenue</b>		
Total life insurance contract premiums received and receivable	216,879	219,697
Less: component recognised as change in life insurance contract liabilities	(13,044)	(14,359)
Life insurance contract premium revenue <sup>(1)</sup>	203,835	205,338
Reinsurance recoveries	11,824	14,971
<b>Total life insurance contract premium and related revenue</b>	<b>215,659</b>	<b>220,309</b>
<b>(b) Analysis of life insurance contract claims and related expenses</b>		
Total life insurance contract claims paid and payable	223,584	218,279
Less: component recognised as a change in life insurance contract liabilities	(21,406)	(24,222)
Life insurance contract claims expense	202,178	194,057
Outwards reinsurance expense	14,163	14,394
<b>Total life insurance contract claims and related expenses</b>	<b>216,341</b>	<b>208,451</b>
<b>(c) Analysis of life insurance operating expenses</b>		
Life insurance contract acquisition expenses		
- Commission	4,021	8,109
- Other expenses	17,659	18,288
Life insurance contract maintenance expenses		
- Commission	13,987	13,976
- Other expenses	25,121	29,667
Investment management expenses	6,565	4,930
<b>(d) Life insurance contract liabilities</b>		
<b>Life insurance contract liabilities determined using projection method</b>		
Best estimate liability		
- Value of future life insurance contract benefits	1,964,472	2,282,273
- Value of future expenses	395,709	444,322
- Value of future premiums	(1,941,433)	(2,188,743)
Value of future profits		
- Life insurance contract holder bonuses	476,387	394,678
- shareholders' profit margins	384,837	380,610
<b>Total life insurance contract liabilities determined using projection method</b>	<b>1,279,972</b>	<b>1,313,140</b>
<b>Life insurance contract liabilities determined using accumulation method</b>		
Best estimate liability		
- Value of future life insurance contract benefits	117,840	122,186
<b>Total life insurance contract liabilities determined using accumulation method</b>	<b>117,840</b>	<b>122,186</b>
Value of declared bonus	20,110	16,818
Unvested policyholder benefits liabilities <sup>(2)</sup>	489,650	452,263
<b>Total life insurance contract liabilities before reinsurance</b>	<b>1,907,572</b>	<b>1,904,407</b>
Add: Reinsurers share of life insurance contract liabilities	28,936	12,668
<b>Total life insurance contract liabilities per the Statement of financial position</b>	<b>1,936,508</b>	<b>1,917,075</b>

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

<sup>(2)</sup> For participating business in 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 17. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated and Parent	
	2013 \$000	2012 \$000
<b>(e) Reconciliation of changes in life insurance contract liabilities</b>		
Total life insurance contract liabilities at the beginning of the year	1,917,075	1,818,412
Change in life insurance contract liabilities recognised in the Income statement	11,528	103,865
Changes in reinsurers' share of life insurance contract liabilities	16,267	4,661
Premiums recognised as an increase in life insurance contract liabilities	17(a) 13,044	14,359
Claims recognised as a decrease in life insurance contract liabilities	17(a) (21,406)	(24,222)
<b>Total life insurance contract liabilities at the end of the year</b>	<b>1,936,508</b>	<b>1,917,075</b>

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

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to note 2(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 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 protection)	Projection	Expected premiums
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<sup>(1)</sup>:

Business Type	Basis	31 December 2013	31 December 2012
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	3.2% - 5.4%	2.5% - 4.1%
Group risk and Retail risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	3.5% - 5.7%	2.8% - 4.4%
Life annuities (non-CPI)	Zero coupon government bond yield curve (including liquidity premium)	3.6% - 5.7%	2.9% - 4.5%
Life annuities (CPI)	Government indexed bond yield curve (including liquidity premium)	2.2% - 3.8%	1.0% - 2.0%

<sup>(1)</sup> The discount rates vary by duration in the range shown above.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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 date are shown in the table below:

	10 Year Government Bonds	Local equities	International equities	Property	Fixed interest	Cash
<b>31 December 2013</b>	<b>4.8%</b>	<b>4.5%</b>	<b>3.5%</b>	<b>2.5%</b>	<b>0.6%</b>	<b>(0.5%)</b>
31 December 2012	3.6%	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
<b>31 December 2013</b>	<b>40%</b>	<b>17%</b>	<b>37%</b>	<b>6%</b>
31 December 2012	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 date as the total return has varied.

#### (iii) Future participating benefits

For participating business, the total value of future bonuses (and the associated shareholders' profit margin) 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 2012 in parentheses):

#### Reversionary Bonus

Bonus on sum insured	0.9%-1.3% (0.4%-0.7%)
Bonus on existing bonuses	0.9%-1.3% (0.4%-0.7%)

# AMP Life Limited (New Zealand Branch)

## Notes to the Financial Statements for the year ended 31 December 2013

### 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)** 3.9%-5.2% (2.9%-3.1%)

##### (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 future 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 2013 are 2.5% for CPI and 3.0% for expenses (31 December 2012: 2.5% for CPI and 3.0% for expenses).

##### (vi) Bases of taxation

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

##### (vii) Voluntary discontinuance

Assumptions for the incidence of withdrawals, paid ups and premium dormancy are primarily based on investigations of AMP Life's own 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 2013	31 December 2012
Conventional	1.1 % - 1.9 %	1.3 % - 2.5 %
Retail risk (lump sum)	12.0 % - 13.0 %	10.5 % - 12.0 %
Retail risk (income benefit)	7.0 % - 12.0 %	7.0 % - 12.0 %

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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 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 experiences.

Rates of mortality assumed at 31 December 2013 are unchanged from those assumed at 31 December 2012.

Typical mortality assumptions in aggregate, are as follows:

Conventional	73% (M/F) IA95 – 97 <sup>(1)</sup>
Term	63% (M/F) IA95 – 97 <sup>(2)</sup>
Annuities	95% IML00* / 80% IFL00* <sup>(3)</sup>

(1) Base IA 95-97 table modified for future mortality improvements

(2) Base IA 95-97 death without riders table modified based on our aggregated experience but with overall product specific adjustment factors

(3) Annuities table modified for future mortality improvements

For Income Protection business the assumptions used are the IAD89-93 standard table modified for AMP Australia and New Zealand combined experience with overall product specific adjustment factors. The adjustment factors include age, gender, occupation, waiting period, duration on claim, benefit band and benefit period.

Typical morbidity assumptions in aggregate are as follows:

	Incidence rates - % of IAD89-93	Termination rates(ultimate) - % of IAD89-93
Income protection	45%-67%	57%-67%

For TPD and trauma business no changes have been made to the assumptions used at 31 December 2012

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Actuaries Institute of Australia based on Australian insured lives experience from 1995 to 1997. The table has been modified to allow for future mortality improvement.
IML00* / IFL00*	IML00 and IFL00 are mortality tables developed by the Actuaries Institute 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 Actuaries Institute of Australia based on Australian disability income experience from 1989 - 1993. The table has been extensively modified based on our aggregate experience.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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 assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are released over future periods.

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2012 to 31 December 2013 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	1,545	(141)	141
Mortality and morbidity	(9,067)	-	-
Discontinuance rates	(4,850)	-	-
Maintenance expenses	2,745	8	(8)
Other assumptions <sup>(1)</sup>	30,286	-	-

<sup>(1)</sup> Other assumption 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 which are accounted for under MoS, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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		Change in shareholder profit after income tax and equity	
		Gross of reinsurance (\$000)	Net of reinsurance (\$000)	Gross of reinsurance (\$000)	Net of reinsurance (\$000)
Mortality	10 % increase in mortality rates	(1,518)	(1,518)	1,518	1,518
Annuitant mortality	50 % increase in the rate of mortality improvement	668	668	(668)	(668)
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	70	70	(70)	(70)

### (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 that 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+.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)</i>	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of AMP Life. Premium rates for yearly renewable business are not guaranteed and may be changed at AMP Life's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of any underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	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.
<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance when due. 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 with not less than 80% allocated to policyholders. Distribution of policyholder profit is through an interest rate mechanism.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities, interest rates.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 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
<b>31 December 2013</b>	<b>8,000</b>	<b>17,000</b>	<b>620,000</b>	<b>645,000</b>
31 December 2012	23,000	17,000	561,000	601,000

## 18. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

	Consolidated and Parent	
	2013	2012
	\$000	\$000
<b>(a) Analysis of life insurance and investment contract profit</b>		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	46,004	42,304
- Profits (losses) arising from difference between actual and assumed experience	(32,535)	(294)
- Capitalised (losses) reversals	134	(58)
<b>Profit related to life insurance and investment contract liabilities</b>	<b>13,603</b>	<b>41,952</b>
Attributable to:		
- Life insurance contracts	12,718	41,309
- Investment contracts	885	643
Investment earnings on assets in excess of life insurance and investment contract liabilities	14,539	26,401

### (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 17(d).

### c) Capital guarantees

	Consolidated and Parent	
	2013	2012
	\$000	\$000
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	1,472,550	1,492,530
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1,445	1,797

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (d) Capital requirements

The RBNZ has granted AMP Life a full licence to carry on insurance business in New Zealand under IPSA. As part of the grant of that license, AMP Life was granted certain exemptions from IPSA 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. In Australia, AMP life is required to hold prudential reserves, over and above its life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. New prudential capital standards for Australian Life and General Insurance Companies (LAGIC) were introduced effective 1 January 2013. This LAGIC framework is intended to take account of the full range of risks to which a regulated institution is exposed and introduces the prescribed capital amount (PCA) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The regulatory capital base and prescribed capital amounts at 31 December 2013 have been calculated based on the new standards. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

In addition to the regulatory capital requirements, AMP Life maintains a target surplus providing additional capital buffer against adverse events. AMP Life uses internal capital models to determine its target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

As described previously, LAGIC prescribes a PCA requirement for registered life insurance entities. The assets included and policies issued in the Branch financial statements represent only a segment of the AMP Life Limited No. 1 Statutory Fund, and as such separate capital reserves are not required to be maintained specifically for the Branch

The excess of AMP Life's capital base over the prescribed capital amount required under LAGIC as at 31 December 2013 for the entire AMP Life Limited No 1 Statutory Fund was AUD535m.

Prior to 1 January 2013, AMP Life was required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. The purpose of the solvency requirement was to ensure, as far as practicable, that at any time the life company was able to meet all existing liabilities as they became due. The capital adequacy requirement was a separate requirement (usually greater), taking into account viability as a going concern. These were specified in the Life Act, the previous *LPS 2.04 Solvency Standard* and *LPS 3.04 Capital Adequacy Standard*.

The Appointed Actuary of AMP Life has confirmed that the available assets of the AMP Life Limited No. 1 Statutory Fund have exceeded PCA at all times during 2013 and exceeded the previous capital adequacy and the solvency reserve required at all times during 2012.

The PCA and solvency requirements shown below are stated in Australian dollars and apply to the entire AMP Life Limited No 1 Statutory Fund.

2013 Prescribed Capital Amount (PCA)		2013 AUD \$m
<b>Capital base</b>		
Net assets as per Life Insurance Act		1,817
Total regulatory adjustments to net assets		(741)
Common equity Tier 1 Capital		1,076
Total regulatory adjustments to Tier 1 Capital		-
Tier 2 Capital		170
Total regulatory adjustments to Tier 2 Capital		-
<b>Total capital base</b>	<b>A</b>	<b>1,246</b>
<b>Prescribed capital</b>		
Asset risk charge		396
Operational risk charge		84
Combined stress scenario adjustment		231
<b>Total Prescribed Capital Amount (PCA)</b>	<b>B</b>	<b>711</b>
<b>Capital adequacy multiple</b>	<b>A/B</b>	<b>175%</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (d) Capital requirements (continued)

	No 1 Statutory Fund	
		2012
2012 Solvency and Capital Adequacy		AUD \$m
<b>Solvency requirement</b>		
Net minimum termination value (MTV)		19,715
Adjusted other liabilities		2,378
Solvency reserve	B	2,518
<b>Total solvency requirement</b>	A	<b>24,611</b>
<b>Assets available for solvency</b>		
Net assets		1,824
Liability for unvested policy owner benefits		1,374
Excess of net policy liabilities (including policyholder bonuses) over MTV		697
<b>Total assets available for solvency</b>	C	<b>3,895</b>
Solvency reserve %	$(B/(A-B))*100$	11.4%
Coverage of solvency reserve	C/B	1.5

### (e) Actuarial information

Mr Rocco Mangano (BA, FIA, FIAA), 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 regulatory capital requirements 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 \$210m (2012: \$242m) of policy liabilities may be settled within 12 months from the reporting date.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (g) Disaggregated information

The Life Act requires the life insurance business of AMP Life to be conducted within a life statutory fund that is separate to the AMP Life Limited Shareholder Fund. Information for all major components of the financial statements disaggregated between the Statutory Fund and the Shareholder Fund is provided within this note.

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

	Investment Linked 2013 \$000	Non Investment Linked 2013 \$000	Elimination 2013 \$000	Total Statutory Fund 2013 \$000	Shareholder Fund 2013 \$000	Total Parent 2013 \$000
<b>Income and expenses of policyholders and the shareholder</b>						
Life insurance premium and related revenue	-	215,659	-	215,659	-	215,659
Fee revenue	3,716	-	-	3,716	-	3,716
Investment gains and (losses)	16,634	42,816	-	59,450	-	59,450
Life insurance claims and related expenses	-	(216,341)	-	(216,341)	-	(216,341)
Operating expenses	(1,428)	(62,207)	-	(63,635)	-	(63,635)
Finance costs	(5)	(289)	-	(294)	-	(294)
Change in policyholder liabilities						
-Life insurance contracts	-	(11,528)	-	(11,528)	-	(11,528)
-Investment contracts	(17,080)	-	-	(17,080)	-	(17,080)
<b>Profit (loss) before income tax</b>	<b>1,837</b>	<b>(31,890)</b>	<b>-</b>	<b>(30,053)</b>	<b>-</b>	<b>(30,053)</b>
Income tax credit (expense)	(952)	59,147	-	58,195	-	58,195
<b>Net profit for the year</b>	<b>885</b>	<b>27,257</b>	<b>-</b>	<b>28,142</b>	<b>-</b>	<b>28,142</b>

	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
<b>Income and expenses of policyholders and the shareholder</b>						
Life insurance premium and related revenue	-	220,309	-	220,309	-	220,309
Fee revenue	2,470	-	-	2,470	-	2,470
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						
-Life insurance contracts	-	(103,865)	-	(103,865)	-	(103,865)
-Investment contracts	(13,934)	-	-	(13,934)	-	(13,934)
<b>Profit (loss) before income tax</b>	<b>2,672</b>	<b>111,188</b>	<b>-</b>	<b>113,860</b>	<b>-</b>	<b>113,860</b>
Income tax credit (expense)	(2,029)	(43,478)	-	(45,507)	-	(45,507)
<b>Net profit for the year</b>	<b>643</b>	<b>67,710</b>	<b>-</b>	<b>68,353</b>	<b>-</b>	<b>68,353</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (g) Disaggregated information (continued)

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

	Investment Linked 2013 \$000	Non Investment Linked 2013 \$000	Elimination 2013 \$000	Total Statutory Fund 2013 \$000	Shareholder Fund 2013 \$000	Total Parent 2013 \$000
<b>Assets</b>						
Investments in financial assets	280,622	2,744,189	(48,765)	2,976,046	2,000	2,978,046
Other assets	(58,450)	283,917	-	225,467	-	225,467
<b>Total assets of policyholders and the shareholder</b>	<b>222,172</b>	<b>3,028,106</b>	<b>(48,765)</b>	<b>3,201,513</b>	<b>2,000</b>	<b>3,203,513</b>
<b>Liabilities</b>						
Life insurance contract liabilities	-	1,936,508	-	1,936,508	-	1,936,508
Investment contract liabilities	114,059	-	-	114,059	-	114,059
Other liabilities	58,463	604,587	(48,765)	614,285	-	614,285
<b>Total liabilities of policyholders and the shareholder</b>	<b>172,522</b>	<b>2,541,095</b>	<b>(48,765)</b>	<b>2,664,852</b>	<b>-</b>	<b>2,664,852</b>
<b>Net assets</b>	<b>49,650</b>	<b>487,011</b>	<b>-</b>	<b>536,661</b>	<b>2,000</b>	<b>538,661</b>
<b>Equity</b>						
Retained earnings	49,650	487,011	-	536,661	2,000	538,661
<b>Total equity</b>	<b>49,650</b>	<b>487,011</b>	<b>-</b>	<b>536,661</b>	<b>2,000</b>	<b>538,661</b>

	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
<b>Assets</b>						
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
<b>Total assets of policyholders and the shareholder</b>	<b>89,103</b>	<b>2,767,717</b>	<b>68,815</b>	<b>2,925,635</b>	<b>2,000</b>	<b>2,927,635</b>
<b>Liabilities</b>						
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
<b>Total liabilities of policyholders and the shareholder</b>	<b>88,461</b>	<b>2,229,184</b>	<b>68,815</b>	<b>2,386,460</b>	<b>-</b>	<b>2,386,460</b>
<b>Net assets</b>	<b>642</b>	<b>538,533</b>	<b>-</b>	<b>539,175</b>	<b>2,000</b>	<b>541,175</b>
<b>Equity</b>						
Retained earnings	642	538,533	-	539,175	2,000	541,175
<b>Total equity</b>	<b>642</b>	<b>538,533</b>	<b>-</b>	<b>539,175</b>	<b>2,000</b>	<b>541,175</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (g) Disaggregated information (continued)

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

	Investment Linked 2013 \$000	Non Investment Linked 2013 \$000	Total Statutory Fund 2013 \$000	Shareholder Fund 2013 \$000	Total Parent 2013 \$000
Opening retained earnings	642	538,533	539,175	2,000	541,175
Profit for the year	885	27,257	28,142	-	28,142
Transfer of profit to parent branch	-	(30,656)	(30,656)	-	(30,656)
Transfer	(642)	642	-	-	-
Closing retained earnings	885	535,766	536,661	2,000	538,661

	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

	Consolidated and Parent	
	2013 \$000	2012 \$000

#### (h) Analysis of other life insurance and investment contract operating expenses

Other life insurance and investment contract acquisition expenses		
- Commission	6	37
- Other expenses	226	122
Other life insurance and investment contract maintenance expenses		
- Commission	151	169
- Other expenses	630	544
Investment management expenses	496	480

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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## 19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

### Financial Risk Management

Financial risk management (FRM) in AMP Life is conducted as part of the AMP Limited group's enterprise risk management framework. The AMP Limited Audit Committee, supported by the AMP Limited Group Asset and Liability Committee ("Group ALCO"), is responsible for ensuring financial risks are appropriately managed.

#### (a) Risks and mitigation

Financial risks arising in the Branch include market risk; liquidity and refinancing risk; and credit risk. These risks are managed according to the Enterprise Risk Management Policy and individual policies for each risk category. This financial risk management includes 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.

Financial risk management includes decisions made about the allocation of investment assets across asset classes and/or markets and the management of risks within these asset classes. Financial risk for investments in the AMP Limited 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 Statutory Fund, the loss tolerance over the discretionary investments is set at a low level because the Branch has equity market exposure in its businesses (for example through fees on assets under management).

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

#### (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, and 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 that the fair value of future cash flows of a financial instrument will fluctuate because of 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 Branch. Management of those risks is decentralised according to the activity. Details are as follows:

- Investment assets of the Statutory Fund including interest-bearing financial assets are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital.
- The interest rate risk of the Branch which impacts shareholders arises in respect of financial assets and liabilities held in the Shareholder Fund and in the Statutory Fund. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the Statutory Fund to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (investment-linked business), there is no residual interest rate exposure which would impact the shareholder.
- Management of various risks associated with investments undertaken by the Statutory Fund and the Shareholder Fund, including interest rate risk, is subject to the relevant regulatory requirements governed by the Life Act. AMP Life is required to satisfy capital adequacy requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities.



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

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

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

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 capital as advised by the Appointed Actuary.

#### *Interest rate risk sensitivity analysis*

This analysis demonstrates the impact on profit after tax and equity of a 100 basis points change in New Zealand and international interest rates, with all other variables held constant. 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 appropriate considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in the Branch.

Change in variables	2013		2012	
	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	(5,312)	(5,312)	(22,530)	(22,530)
- 100 basis points	10,931	10,931	12,729	12,729

#### (ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in foreign exchange rates.

#### *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 of currency exposures in the AMP group.

Change in variables	2013		2012	
	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	2,509	2,509	1,471	1,471
10 % appreciation of NZD	(2,608)	(2,608)	(1,463)	(1,463)

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

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

#### (iii) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in equity prices. The Branch measures equity securities at fair value.

#### 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 Branch and the range of movements in equity markets for the periods.

Change in variables	2013		2012	
	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000	Impact on profit after tax Increase (decrease) \$000	Impact on equity Increase (decrease) \$000
10 % increase in New Zealand equities	1,499	1,499	935	935
10 % increase in international equities	2,509	2,509	1,710	1,710
10 % decrease in New Zealand equities	(1,595)	(1,595)	(924)	(924)
10 % decrease in international equities	(2,608)	(2,608)	(1,702)	(1,702)

### (c) Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required

The following table summarises the maturity profile of the Branch's undiscounted financial liabilities at the reporting date. The maturity profile is based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

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

2013 - Consolidated	Up to 1 year or no term \$000	1 to 5 years \$000	More than 5 years \$000	Other <sup>(2)</sup> \$000	Total \$000
Payables	80,167	1,634	313	1,952	84,066
Derivative financial liabilities	3,029	2,956	114,092	-	120,077
Investment contract liabilities <sup>(2)</sup>	-	-	-	114,059	114,059
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>83,196</b>	<b>4,590</b>	<b>114,405</b>	<b>116,011</b>	<b>318,202</b>
2012 - Consolidated	Up to 1 year or no term \$000	1 to 5 years \$000	More than 5 years \$000	Other \$000	Total \$000
Payables	60,172	897	-	1,650	62,719
Derivative financial liabilities	682	1,904	1,679	-	4,265
Investment contract liabilities	-	-	-	110,631	110,631
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>60,854</b>	<b>2,801</b>	<b>1,679</b>	<b>112,281</b>	<b>177,615</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (c) Liquidity risk (continued)

Maturity profile of undiscounted financial liabilities (continued)

2013 – Parent	Up to 1 year or no term	1 to 5 years	More than 5 years	Other <sup>(2)</sup>	Total
	\$000	\$000	\$000	\$000	\$000
Payables	338,561	134	-	1,952	340,647
Derivative financial liabilities	-	-	109,152	-	109,152
Investment contract liabilities <sup>(2)</sup>	-	-	-	114,059	114,059
<b>Total undiscounted financial liabilities <sup>(3)</sup></b>	<b>338,561</b>	<b>134</b>	<b>109,152</b>	<b>116,011</b>	<b>563,858</b>

2012 - Parent	Up to 1 year or no term	1 to 5 years	More than 5 years	Other	Total
	\$000	\$000	\$000	\$000	\$000
Payables	127,677	-	-	1,648	129,325
Derivative financial liabilities	-	-	1,073	-	1,073
Investment contract liabilities	-	-	-	110,631	110,631
<b>Total undiscounted financial liabilities</b>	<b>127,677</b>	<b>-</b>	<b>1,073</b>	<b>112,279</b>	<b>241,029</b>

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

<sup>(2)</sup> Investment contract liabilities of \$114.0m (2012: \$110.6m) are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all those policyholders claimed their funds, there may be some delays in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk.

<sup>(3)</sup> Estimated net cash out flow profile of life insurance contract liabilities is disclosed in Note 17(i).

### (d) Credit risk

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

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

Credit risk management is decentralised in business units within the AMP group. However, credit risk directly and indirectly (i.e. in the participating business) impacting shareholder capital is measured and managed by AMP Group Treasury on a Group basis, by aggregating risk from credit exposures taken in business units. Credit risk on the invested fixed income portfolios in the Statutory Fund 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (d) Credit risk (continued)

#### (i) Management of credit risk concentration(continued)

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 Limited 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 Limited group's capital position are managed by AMP Group 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 Group Treasury according to the credit rating of the counter parties.

	2013	2012
		<i>Restated</i>
	\$000	\$000
AAA	49,534	78,853
AA	984,653	896,029
A	219,896	172,862
BBB	42,991	54,919
Below BBB	305	410
Unrated	2,648	1,861
Total financial assets measured at fair value through profit or loss with credit risk exposure managed by AMP Group Treasury <sup>(1)</sup>	1,300,027	1,204,934
Other assets <sup>(2)</sup>	1,736,361	1,730,692
Total assets	3,036,388	2,935,626

<sup>(1)</sup> 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.

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

#### (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:

2013 - Consolidated	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Other receivables – other entities	1,107	486	74	400	2,067
Reinsurance and other recoveries	3,610	385	-	1,387	5,382
Total <sup>(1)</sup>	4,717	871	74	1,787	7,449

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

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### (d) Credit risk (continued)

(iii) Past due but not impaired financial assets (continued)

2013 - Parent	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Reinsurance and other recoveries	3,610	385	-	1,387	5,382
<b>Total <sup>(1)</sup></b>	<b>3,610</b>	<b>385</b>	<b>-</b>	<b>1,387</b>	<b>5,382</b>

2012 - Parent	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 – 90 days	More than 91 days	
	\$000	\$000	\$000	\$000	\$000
Other receivables – other entities	529	1,495	3,258	1,298	6,580
<b>Total <sup>(1)</sup></b>	<b>529</b>	<b>1,495</b>	<b>3,258</b>	<b>1,298</b>	<b>6,580</b>

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

### (e) Derivative financial instruments

Derivative financial instruments are measured at fair value in the Statement of financial position. 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

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

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

#### (ii) Risk relating to derivative financial instruments

The market risk of derivatives of the Branch 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) Master netting or similar arrangements

#### Derivative financial assets and liabilities

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not meet the criteria for offsetting in the Statement of financial position as the Branch does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default.

Consolidated:

As at 31 December 2013, if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$81.6m would be reduced by \$23.8m to the net amount of \$57.8m and derivative liabilities of \$120.0m would be reduced by \$23.8m to the net amount of \$96.2m (31 December 2012: derivative assets of \$224.6m reduced by \$3.1m to the net amount of \$221.5m and derivative liabilities of \$4.2m reduced by \$3.1m to the net amount of \$1.1m).

# AMP Life Limited (New Zealand Branch)

## Notes to the Financial Statements for the year ended 31 December 2013

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

#### (f) Master netting or similar arrangements (continued)

Parent:

As at 31 December 2013, if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$32.0m would be reduced by \$19.0m to the net amount of \$13.0m and derivative liabilities of \$109.1m would be reduced by \$19.0m to the net amount of \$90.1m (31 December 2012: derivative assets of \$173.2m reduced by \$1.0m to the net amount of \$172.1m and derivative liabilities of \$1.0m reduced by \$1.0m to the net amount of \$nil).

#### (g) Other collateral

AMP Life has collateral arrangements in place with some counterparties. Collateral generally consists of loans and deposits and is exchanged between the counterparties to reduce the exposure from the net fair value of derivative assets and liabilities between the counterparties.

Consolidated:

As at 31 December 2013 there was \$2.7m of collateral deposits due to other financial institutions (2012: \$nil) and \$98.1m of collateral loans due from other financial institutions relating to derivative assets and liabilities (2012: \$0.9m).

Parent:

As at 31 December 2013 there was \$nil of collateral deposits due to other financial institutions (2012: \$nil) and \$95.3m of collateral loans due from other financial institutions relating to derivative assets and liabilities (2012: \$nil)

### 20. FAIR VALUE INFORMATION

The Branch's assets and liabilities 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.

The fair value of listed debt securities that are not frequently traded are obtained using discounted cash flow models. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments.

The fair value of securities including equities, fixed interest securities, cash and properties that are held through unlisted managed investment schemes are valued at published redemption prices of those managed investment schemes at the reporting date.

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.

Equity investments of the parent represent investments in controlled entities and fair value is determined using the net asset value of those investments.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 20. FAIR VALUE INFORMATION (CONTINUED)

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

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

2013 - Consolidated	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total fair value \$000
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	11,469	-	-	11,469
Debt securities	-	1,095,176	-	1,095,176
Investment in unlisted managed investment schemes	-	1,377,457	4,425	1,381,882
Derivative financial assets	41,018	40,652	-	81,670
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>52,487</b>	<b>2,513,285</b>	<b>4,425</b>	<b>2,570,197</b>
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Derivative financial liabilities	2,932	117,145	-	120,077
Investment contract liabilities	-	11,251	102,808	114,059
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>2,932</b>	<b>128,396</b>	<b>102,808</b>	<b>234,136</b>
<b>2012 - Consolidated</b>	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Level 3 \$000</b>	<b>Total fair value \$000</b>
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
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
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>35,334</b>	<b>2,479,365</b>	<b>2,918</b>	<b>2,517,617</b>
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Derivative financial liabilities	533	3,732	-	4,265
Investment contract liabilities	-	11,598	99,033	110,631
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>533</b>	<b>15,330</b>	<b>99,033</b>	<b>114,896</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 20. FAIR VALUE INFORMATION (CONTINUED)

2013 - Parent	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total fair value \$000
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	-	1,805,826	-	1,805,826
Debt securities	-	51,488	-	51,488
Investment in unlisted managed investment schemes	-	11,057	4,425	15,482
Derivative financial assets	-	32,098	-	32,098
<b>Total financial assets measured at fair value on a recurring basis</b>	-	1,900,469	4,425	1,904,894
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Derivative financial liabilities	-	109,152	-	109,152
Investment contract liabilities	-	11,251	102,808	114,059
<b>Total financial liabilities measured at fair value on a recurring basis</b>	-	120,403	102,808	223,211
<b>2012 - Parent</b>	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Level 3 \$000</b>	<b>Total fair value \$000</b>
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
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
<b>Total financial assets measured at fair value on a recurring basis</b>	-	1,738,288	2,918	1,741,206
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Derivative financial liabilities	-	1,073	-	1,073
Investment contract liabilities	-	11,598	99,033	110,631
<b>Total financial liabilities measured at fair value on a recurring basis</b>	-	12,671	99,033	111,704



# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 20. FAIR VALUE INFORMATION (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:

2013 - Consolidated	Balance at the beginning of the year	Total gains / (losses) (2) (4)	Purchases / deposits	Sales / withdrawal	Net transfer in / (out) (1) (3)	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
Investment in unlisted managed investment schemes	2,918	(210)	-	-	1,717	4,425	(210)
<b>Total financial assets</b>	<b>2,918</b>	<b>(210)</b>	<b>-</b>	<b>-</b>	<b>1,717</b>	<b>4,425</b>	<b>(210)</b>
<b>Liabilities</b>							
Investment contract liabilities	99,033	13,383	2,693	(12,301)	-	102,808	13,383
<b>Total financial liabilities</b>	<b>99,033</b>	<b>13,383</b>	<b>2,693</b>	<b>(12,301)</b>	<b>-</b>	<b>102,808</b>	<b>13,383</b>

2012 - 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
<b>Assets</b>							
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
<b>Total financial assets</b>	<b>9,794</b>	<b>42</b>	<b>-</b>	<b>(6,918)</b>	<b>-</b>	<b>2,918</b>	<b>42</b>
<b>Liabilities</b>							
Investment contract liabilities	101,026	10,549	3,045	(15,587)	-	99,033	10,549
<b>Total financial liabilities</b>	<b>101,026</b>	<b>10,549</b>	<b>3,045</b>	<b>(15,587)</b>	<b>-</b>	<b>99,033</b>	<b>10,549</b>

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 20. FAIR VALUE INFORMATION (CONTINUED)

2013 - Parent	Balance at the beginning of the year \$000	Total gains / (losses) (2) (4) (5) \$000	Purchases / deposits \$000	Sales / withdrawals \$000	Net transfer in / (out) (1) (3) \$000	Balance at the end of the year \$000	Total gains and losses on assets and liabilities held at reporting date \$000
<b>Assets</b>							
Investment in unlisted managed investment schemes	2,918	(210)	-	-	1,717	4,425	(210)
<b>Total financial assets</b>	<b>2,918</b>	<b>(210)</b>	<b>-</b>	<b>-</b>	<b>1,717</b>	<b>4,425</b>	<b>(210)</b>
<b>Liabilities</b>							
Investment contract liabilities	99,033	13,383	2,693	(12,301)	-	102,808	13,383
<b>Total financial liabilities</b>	<b>99,033</b>	<b>13,383</b>	<b>2,693</b>	<b>(12,301)</b>	<b>-</b>	<b>102,808</b>	<b>13,383</b>
<b>2012 – Parent</b>	<b>Balance at the beginning of the year \$000</b>	<b>Total gains / (losses) \$000</b>	<b>Purchases / deposits \$000</b>	<b>Sales/ withdrawals \$000</b>	<b>Net transfer in / (out) \$000</b>	<b>Balance at the end of the year \$000</b>	<b>Total gains and losses on assets and liabilities held at reporting date \$000</b>
<b>Assets</b>							
Investment in unlisted managed investment schemes	2,876	42	-	-	-	2,918	42
<b>Total financial assets</b>	<b>2,876</b>	<b>42</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,918</b>	<b>42</b>
<b>Liabilities</b>							
Investment contract liabilities	101,026	10,549	3,045	(15,587)	-	99,033	10,549
<b>Total financial liabilities</b>	<b>101,026</b>	<b>10,549</b>	<b>3,045</b>	<b>(15,587)</b>	<b>-</b>	<b>99,033</b>	<b>10,549</b>

<sup>(1)</sup> The Branch recognises transfers as at the end of the reporting period during which the transfer has occurred.

Transfers are recognised when there are changes in the observability of the pricing of the relevant securities.

<sup>(2)</sup> Gains and losses are classified in investment gains and losses or change in policyholder liabilities in the Income Statement.

<sup>(3)</sup> There have been no significant transfers from Level 1 to Level 2 or vice versa.

<sup>(4)</sup> The Branch recognises transfers as at the end of the reporting period during which the transfer has occurred.

<sup>(5)</sup> As at 31 December 2013, the full amount of Total gains / (losses) was unrealised.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 20. FAIR VALUE INFORMATION (CONTINUED)

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

Consolidated	2013			Valuation Technique	Key Unobservable Inputs
	Carrying amount \$000	Effect of reasonably possible alternative assumptions (+10%) \$000	Effect of reasonably possible alternative assumptions (-10%) \$000		
<b>Assets</b>					
Equity securities and listed managed investment schemes	-	-	-		
Debt securities	-	-	-		
Investments in unlisted managed investment schemes	4,425	130	(130)	Net Asset Value, Multiple of Earnings	Earnings Multiple of 5
<b>Total financial assets</b>	<b>4,425</b>	<b>130</b>	<b>(130)</b>		

Consolidated	2012		
	Carrying amount \$000	Effect of reasonably possible alternative assumptions (+) \$000	Effect of reasonably possible alternative assumptions (-) \$000
<b>Assets</b>			
Investments in unlisted managed investment schemes	2,918	115	(115)
<b>Total financial assets</b>	<b>2,918</b>	<b>115</b>	<b>(115)</b>

Parent	2013			Valuation Technique	Key Unobservable Inputs
	Carrying amount \$000	Effect of reasonably possible alternative assumptions (+10%) \$000	Effect of reasonably possible alternative assumptions (-10%) \$000		
<b>Assets</b>					
Investment in unlisted managed investment schemes	4,425	130	(130)	Net Asset Value, Multiple of Earnings	Earnings Multiple of 5
<b>Total financial assets</b>	<b>4,425</b>	<b>130</b>	<b>(130)</b>		

Parent	2012		
	Carrying amount \$000	Effect of reasonably possible alternative assumptions (+) \$000	Effect of reasonably possible alternative assumptions (-) \$000
<b>Assets</b>			
Investment in unlisted managed investment schemes	6,874	115	(115)
<b>Total financial assets</b>	<b>6,874</b>	<b>115</b>	<b>(115)</b>

## AMP Life Limited (New Zealand Branch)

### Notes to the Financial Statements for the year ended 31 December 2013

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#### 20. FAIR VALUE INFORMATION (CONTINUED)

The fair value of the assets increase/decrease as the inputs increase/decrease. Each individual asset and industry profile will determine the appropriate valuation to be utilised in each specific valuation and vary from asset to asset. Reasonably possible alternative assumptions have been calculated by changing one or more of significant unobservable inputs for individual assets to reasonably possible alternative assumptions. On financial assets this included adjusting the earnings multiple up or down by 0.5 times.

##### *Financial asset valuation process*

For financial assets categorised within Level 3 of the fair value hierarchy, the valuation processes applied in valuing such assets is governed by the AMP Capital Asset Valuation Policy. This policy outlines the asset valuation methodologies and processes applied to measure non-exchange traded assets which have no regular market price, including investment property, infrastructure, private equity, alternative assets, and Illiquid Debt Securities. All significant Level 3 assets are referred to the appropriate valuation committee who meet at least every 6 months, or more frequently if required.

The Branch recognises loans against policies with a carrying value of \$49.9m (2012: \$53.6m) on the amortised cost basis. These loans attract interest at a rate of 6.0 % p.a. (2012: 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 approximates the carrying value.

#### 21. CAPITAL MANAGEMENT

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

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

The Branch'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 (MRCR) 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 Limited No.1 Statutory Fund – Capital adequacy requirements as specified under the Life Act and APRA Life Insurance Prudential Standards. This applies to AMP Life as a whole, and the AMP Life Limited No. 1 Statutory Fund.

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 Life has a Board approved minimum capital target above APRA requirements, with additional capital targets held above this amount. The capital target above the Board minimum has been set to a less than 10% probability of capital resources falling below the Board minimum over a 12 month period. In addition, the participating business is managed to target a very high level of confidence that the business is self-supporting and that there are sufficient assets to support policyholder liabilities.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 22. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2013	2012	2013	2012
		<i>Restated</i>		
	\$000	\$000	\$000	\$000
<b>(a) Reconciliation of the net profit after income tax attributable to the shareholder to cash flows from operating activities</b>				
Net profit after income tax	39,847	71,061	28,142	68,353
Depreciation, amortisation, impairment and loss on disposals	7,764	3,823	-	-
Other non-cash items	944	549	-	-
Net realised and unrealised gains and losses on investment assets	73,376	(167,014)	(8,245)	(240,944)
Loss on disposal of controlled entity	-	13,175	-	-
Loss on disposal of plant and equipment	-	959	-	-
Dividends and distributions reinvested	(23,726)	(26,968)	-	(60)
Defined benefit expense	1,815	(1,449)	-	-
Increase / (decrease) in life insurance contract liabilities	19,433	98,663	19,433	98,663
Decrease in investment contract liabilities	3,428	(2,693)	3,428	(2,693)
Decrease in income tax balances	(79,563)	(3,097)	(81,883)	(523)
(Increase) / decrease in other operating assets and liabilities	(94,363)	(11,684)	(17,758)	8,164
<b>Cash flows from / (used in) operating activities</b>	<b>(51,045)</b>	<b>(24,675)</b>	<b>(56,883)</b>	<b>(69,040)</b>

	Consolidated		Parent	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
<b>(b) Reconciliation of cash and cash equivalents</b>				
Comprises:				
Cash on hand	76,574	39,542	16,900	21,205
Cash on deposit	32,500	141,893	1,000	14,135
<b>Balance at the end of the year</b>	<b>109,074</b>	<b>181,435</b>	<b>17,900</b>	<b>35,340</b>

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.

## 23. DEFINED BENEFIT PLAN LIABILITY AND COMMITMENTS

The following tables summarise the components of the net amounts recognised in the Income statement, Statement of comprehensive income and Statement of financial position for the staff superannuation plan of a controlled entity. As noted in note 2(z), 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

### Change in discount rate

Due to the change in the accounting standard the discount rate used this year is a gross of tax rate while in the prior year it was a net of tax rate. Comparative information was restated in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (refer to Note 2(a)). The current year information is prepared under the amended accounting standard NZ IAS19 as mentioned in the Summary of Accounting Policies.

	Consolidated	
	2013	2012
	\$000	\$000
<b>(a) Defined benefit income</b>		
Current service costs	(27)	(27)
Interest cost	(262)	(325)
Contributions tax	(137)	(150)
<b>Total defined benefit expense</b>	<b>(426)</b>	<b>(502)</b>
<b>(b) Amounts recognised in the Statement of comprehensive income (SOC)</b>		
Actuarial (gains) / losses	(2,979)	1,576
Actual return on plan assets less interest income	(1,359)	(1,644)
Tax	(1,641)	(624)
<b>Total gains recognised via the SOC</b>	<b>(5,979)</b>	<b>(692)</b>
<b>(c) Movement in defined benefit obligation</b>		
Balance at the beginning of the year	30,487	30,130
Current service cost	27	27
Interest cost	1,054	1,100
Contributions by plan participants	20	14
Actuarial gains and (losses) *	(2,979)	1,576
Benefits paid	(2,290)	(2,338)
Taxes, premium and expenses paid	(24)	(22)
<b>Balance at the end of the year</b>	<b>26,295</b>	<b>30,487</b>
<b>(d) Movement in fair value of plan assets</b>		
Balance at beginning of the year	22,439	20,822
Interest income	792	774
Expected return on plan assets	1,359	1,644
Contributions by the employer	1,526	1,545
Contributions by plan participants	20	14
Benefit paid	(2,290)	(2,338)
Taxes, premium and expenses paid	(24)	(22)
<b>Balance at the end of the year</b>	<b>23,822</b>	<b>22,439</b>
<b>(e) Defined benefit deficit</b>		
Defined benefit obligations	(26,295)	(30,487)
Less fair value of plan assets	23,822	22,439
Contributions tax	(1,218)	(3,449)
<b>Net liability recognised in the Statement of financial position</b>	<b>(3,691)</b>	<b>(11,497)</b>

\*Actuarial gains and losses 2013

These can be broken down further for 2013 into losses arising from changes in demographic assumptions (\$0.1m) offset by gains from changes in financial assumptions (\$2.7m) and gains from liability experience (\$0.3m).

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

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

	Consolidated	
	2013	2012
	\$000	\$000
<b>(f) Movement in net defined benefit (deficit)</b>		
Opening liability at the beginning of the year	(11,497)	(13,893)
Plus total expense recognised in income	(426)	(502)
Plus employer contributions	2,253	2,206
Less actuarial losses recognised in other comprehensive income	5,979	692
<b>Deficit at the end of the year</b>	<b>(3,691)</b>	<b>(11,497)</b>

Expected contributions for the financial year ending 31 December 2014 are \$1,592,000. This expectation is based on the latest information from the external actuaries, Mercer (N.Z.) Limited in their report of 31 December 2013.

### Fair Value of Plan Assets

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

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

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

### (g) Sensitivity analysis

The defined benefit obligation under different scenarios is as follows:

	2013
	\$000
Base Case	26,295
Scenario A: 1% lower discount rate assumption	28,532
Scenario B: 1 year additional life expectancy	27,399
Scenario C: 1% higher pension increase rate assumption	27,841

The sensitivity analysis has been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period

### (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:

	2013	2012
	%	%
Discount rate	4.80	3.60
Inflation increase	2.50	2.50
Future pension increases	1.90	1.90

The decrease in the liability totals \$7.8m (2012 restated: \$2.4m). The change in discount rate is due to the change in the accounting standard to a gross discount rate from a net discount rate in 2012.

Pensioner mortality is based on the NZ Life table 2010-2012 rated down one year.

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

The asset category of the plan assets consists of investment funds in balanced funds, conservative funds and growth funds all available in an active market.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 23. 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 \$2.5m (2012: \$8.0m) 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.

	2013	2012
The percentage invested in each asset class at the balance date:		
Equity	47 %	55 %
Fixed income	25 %	26 %
Property	10 %	8 %
Other	4 %	-
Cash	14 %	11 %

## 24. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	% Holdings	
			2013	2012
Allmarg Corporation Limited <sup>(1)</sup>	New Zealand	Ordinary, Preference	100.0	100.0
AMP Capital Investments No. 2 Limited <sup>(1)</sup>	New Zealand	Ordinary A & B, Preference	99.9	99.9
AMP Capital Investments No. 8 Limited <sup>(1)</sup>	New Zealand	Ordinary A & B, Preference	99.9	99.9
AMP Capital Investments No. 14 Limited <sup>(1)</sup>	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 <sup>(1)</sup>	New Zealand	Ordinary	100.0	100.0
AMP Life (NZ) Investments Limited <sup>(1)</sup>	New Zealand	Ordinary	100.0	100.0
AMP Services (NZ) Limited <sup>(2)</sup>	New Zealand	Ordinary	100.0	100.0
AMP/ERGO Mortgage and Savings Limited <sup>(1)</sup>	New Zealand	Ordinary	100.0	100.0

<sup>(1)</sup> Controlled entities of AMP Life Limited (New Zealand Branch) No. 1 Statutory Fund

<sup>(2)</sup> Controlled entities of AMP Life Limited (New Zealand Branch) Shareholder Fund



# AMP Life Limited (New Zealand Branch)

## Notes to the Financial Statements for the year ended 31 December 2013

### 25. ASSOCIATES

Investments in associates held by the Statutory Fund measured at fair value through profit or loss<sup>(1)</sup>

		Ownership interest		Carrying amount	
NAME OF UNIT TRUSTS AND OTHER ENTITIES	PRINCIPAL ACTIVITY	2013	2012	2013	2012
		%	%	\$000	\$000
<b>Consolidated</b>					
AMP Pencarrow Private Capital Joint Venture Fund	Investment vehicle	34	34	2,709	2,918
	Passive Equity				
AMP Capital NZ Shares Index Fund	Investment	35	38	102,694	92,962
AMP Capital NZ Shares Fund	Equity Investment	20	23	91,796	94,069
AMP Capital Strategic NZ Shares Fund	Equity Investment	38	28	145,659	152,862
	Passive International				
AMP Capital Global Shares Fund	Equities	27	27	44,742	40,267
AMP Capital Property Portfolio	Property Investment	43	39	343,039	306,835
<b>Total investments held by the life statutory fund in associated unit trusts and other entities</b>				<b>730,639</b>	<b>689,913</b>

<sup>(1)</sup> 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(h). The balance date for all associated entities is 31 March.

In the course of normal 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.

### 26. OPERATING LEASE COMMITMENTS

	Consolidated		Parent	
	2013	2012	2013	2012
Note	\$000	\$000	\$000	\$000
<b>Operating lease commitments (non-cancellable)</b>				
Due within one year	3,590	3,293	-	-
Due within one year to five years	12,310	12,118	-	-
Due later than five years	2,621	5,133	-	-
<b>Total operating lease commitments</b>	<b>18,521</b>	<b>20,544</b>	<b>-</b>	<b>-</b>

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

### 27. 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 for performance obligations to controlled entities of the Branch.

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 the Branch 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 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 (2012: \$4.2m).

# AMP Life Limited (New Zealand Branch)

## Notes to the Financial Statements for the year ended 31 December 2013

### 28. 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	
Catherine Brenner	Chairman, Non-Executive Director	
Craig Dunn	Executive Director	Resigned: 31 December 2013
Craig Meller	Executive Director	
Pauline Blight-Johnston	Executive Director	Appointed: 1 March 2014
Anthony Coleman	Non-Executive Director	
Diana Eilert	Non-Executive Director	
John Palmer	Non-Executive Director	
Andrew Harnos	Non-Executive Director	Appointed: 10 August 2013
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 (in thousands of Australian dollars).

	Short term benefits	Post employment benefits	Share-based payments	Total
2013	5,697	112	3,815	9,624
2012	5,613	103	3,376	9,092

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 2013 (2012: 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.

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 28. RELATED PARTY DISCLOSURES (CONTINUED)

### (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 2013 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) on a normal commercial basis. 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 24 and 25. Investment management services provided by AMP Capital to AMP Life are charged at normal commercial rates.

The Parent sold tax losses of \$3.2 million (2012: \$nil) to other companies within the Branch and \$15.9 million (2012: \$nil) to other related parties in the current year. Consideration of \$5.3 million was received for these losses. Significant acquirers of these tax losses include Spicers Portfolio Management Consolidated Group: \$9.2 million, Mortgage Backed Bonds Limited: \$3.3 million and NMLA Australasia Limited: \$2.2 million.

In the previous financial year the parent received a dividend from AMP Capital Investments No.14 Limited.

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

		For the year ended 31 December		As at 31 December	
		Service, management and other fee revenue from related parties \$000	Service, management and other fee expense to related parties \$000	Amounts owed by related parties \$000	Amounts owed to related parties \$000
Fellow subsidiaries of AMP					
AMP Life Limited Australia Shareholder Fund	2013	-	-	-	6,874
	2012	-	-	-	-
AMP Services (NZ) Limited	2013	-	41,864	-	971
	2012	-	46,215	-	2,194
AMP Services Limited	2013	-	584	-	560
	2012	-	-	-	-
AMP Capital Investors (New Zealand) Limited	2013	-	413	-	-
	2012	-	387	-	-
AMP Capital Investors Limited	2013	-	1,411	-	474
	2012	-	1,117	-	828
AMP / ERGO Mortgage and Savings Limited	2013	-	-	1,678	-
	2012	-	-	1,752	-
AMP Life (NZ) Investments Holdings Limited	2013	-	-	1,071,152	-
	2012	-	-	1,071,152	-
AMP Life (NZ) Investments Limited	2013	-	-	-	303,200
	2012	-	-	-	90,747
AMP Capital Investments No.14 Limited	2013	-	-	-	-
	2012	1,019	-	-	-
BNP Paribas Unit Trusts (various)	2013	-	-	846	-
	2012	-	-	-	-

# AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

## 28. RELATED PARTY DISCLOSURES (CONTINUED)

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

#### (i) 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.

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

the relevant financial year.

		For the year ended 31 December	Service, management and other fee revenue from related parties \$000	Service, management and other fee expense to related parties \$000	As at 31 December	Amounts owed by related parties \$000	Amounts owed to related parties \$000
Fellow subsidiaries of AMP							
AMP Life Limited Australia Shareholder Fund	2013	-	-	-	-	-	6,874
	2012	-	-	-	-	-	-
AMP Services Limited (Australia)	2013	8,442	20,038	-	-	-	6,213
	2012	14,368	27,230	-	-	-	5,075
AMP Capital Investors (New Zealand) Limited	2013	372	11,557	-	-	-	8,507
	2012	195	7,864	-	-	-	2,830
AMP Capital Investors Limited	2013	-	6,428	-	-	-	1,438
	2012	-	4,828	-	-	-	842
AMP Wealth Management New Zealand Limited	2013	16,419	-	-	-	-	15,950
	2012	17,668	-	-	292	-	-
AMP AAPH Limited (formerly AXA Asia Pacific Holdings Limited)	2013	-	2,000	1,897	-	-	-
	2012	-	2,000	1,951	-	-	-
The National Mutual Life Association of Australasia Limited (NMLA) – New Zealand Branch	2013	33,948	-	3,827	-	-	-
	2012	38,343	-	20,860	-	-	-
Spicers Portfolio Management Limited	2013	6,600	-	6,656	-	-	-
	2012	8,064	-	1,836	-	-	-
BNP Paribas Unit Trusts (various)	2013	12,677	-	846	-	-	-
	2012	-	-	-	-	-	-

## AMP Life Limited (New Zealand Branch)

Notes to the Financial Statements for the year ended 31 December 2013

### 29. AUDITOR'S REMUNERATION

Amounts paid to the Auditor of the Branch for:

	Consolidated		Parent	
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Audit of the financial statements	628	574	275	304
Other assurance-related services	-	183	-	-
Tax compliance services	15	-	15	-

The above amounts are inclusive of non-recoverable GST.

### 30. 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 Branch, the results of its operations or its state of affairs, which is not already reflected in this report.

## **Appointed Actuary's Report for AMP Life Limited ("AMP Life") (New Zealand Branch)**

To the Directors of 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 2013 ("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 the policy liabilities of AMP Life and the regulatory capital requirements 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).
- c) Proper records have been kept by AMP Life from which its policy liabilities and regulatory capital requirements have been able to be properly determined.
- d) The apportionment of income and outgo used in preparing the AMP Life accounts at 31 December 2013, 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 regulatory capital requirements throughout the year ended 31 December 2013 in relation to the New Zealand Branch. Note that the APRA regulatory capital requirement 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, 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.



Rocco Mangano FIAA  
Appointed Actuary, AMP Life Limited  
24 April 2014

## 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 71, which comprise the statement of financial position of the New Zealand branch of AMP Life Limited and the group as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the New Zealand branch of AMP Life Limited and the group, and a summary of significant accounting policies and other explanatory information.

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

### Directors' Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Ernst & Young has provided tax compliance services to the New Zealand branch of AMP Life Limited and its subsidiaries during the year. We have no other relationship with or interest in the New Zealand branch of AMP Life Limited and the 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 71:

- ▶ 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 2013 and the financial performance and cash flows of the New Zealand branch of AMP Life Limited 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*

2 May 2014  
Auckland



**AMP Life Limited**  
**Statutory Fund No. 1**  
ABN 84 079 300 379

**Financial Report**  
**for the year ended**  
**31 December 2013**



# AMP LIFE LIMITED

## Statutory Fund No. 1

ABN 84 079 300 379

FINANCIAL REPORT  
31 DECEMBER 2013

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# AMP Life Limited Statutory Fund No.1 Financial Report

## Statement of comprehensive income

for the year ended 31 December 2013

		Consolidated		Parent	
	Note	2013	2012	2013	2012
		\$m	\$m	\$m	\$m
<b>Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests<sup>(1)</sup></b>					
Life insurance premium and related revenue	16(a)	1,262	1,204	1,262	1,204
Fee revenue	3(a)	43	46	44	47
Other revenue	3(b)	3	14	3	4
Investment gains and (losses)	3(c)	1,441	2,070	1,383	2,070
Life insurance claims and related expenses	16(b)	(1,297)	(1,263)	(1,297)	(1,263)
Operating expenses	4(a)	(672)	(653)	(641)	(629)
Finance costs	4(b)	(20)	(34)	(18)	(32)
Movement in external unitholders' liabilities		(23)	17	-	-
Change in policyholder liabilities					
- life insurance contracts	16(e)	(201)	(557)	(201)	(557)
- investment contracts		(142)	(194)	(142)	(194)
<b>Profit for the year before income tax</b>		<b>394</b>	<b>650</b>	<b>393</b>	<b>650</b>
Income tax expense <sup>(1)</sup>	5	(116)	(320)	(115)	(320)
<b>Profit for the year</b>		<b>278</b>	<b>330</b>	<b>278</b>	<b>330</b>
<b>Other comprehensive income - items that may be reclassified subsequently to profit or loss</b>					
Exchange differences on translation of foreign operations					
- exchange gains		68	16	68	16
		<b>68</b>	<b>16</b>	<b>68</b>	<b>16</b>
<b>Total comprehensive income for the year</b>					
(Profit) / Loss attributable to non-controlling interests		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>346</b>	<b>346</b>	<b>346</b>	<b>346</b>

### 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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Statement of financial position

as at 31 December 2013

		Consolidated		Parent	
	Note	2013	2012	2013	2012
		\$m	\$m	\$m	\$m
<b>Assets</b>					
Cash and cash equivalents		3,112	3,945	3,028	3,712
Receivables	6	978	1,040	916	726
Current tax assets		78	20	78	20
Other assets	7	3	3	2	1
Investments in financial assets measured at fair value through profit or loss	8	21,028	20,998	19,565	19,813
Investment property	9	586	579	133	132
Property, plant and equipment	10	29	26	26	23
Deferred tax assets	5(c)	92	62	92	62
Investments in controlled entities	8	-	-	1,893	1,435
<b>Total assets of the shareholder of AMP Life Limited, policyholders, external unitholders and non-controlling interests</b>		<b>25,906</b>	<b>26,673</b>	<b>25,733</b>	<b>25,924</b>
<b>Liabilities</b>					
Payables	11	447	742	701	513
Current tax liabilities		10	122	10	122
Provisions	12	5	7	1	1
Other financial liabilities	8	939	707	883	663
Borrowings	13	297	303	337	384
Subordinated debt	14	170	-	170	-
Deferred tax liabilities	5(d)	618	511	618	511
External unitholder liabilities		395	539	-	-
Life insurance contract liabilities	16(d)	17,875	17,944	17,875	17,944
Investment contract liabilities		3,321	3,962	3,321	3,962
<b>Total liabilities of the shareholder of AMP Life Limited, policyholders, external unitholders and non-controlling interests</b>		<b>24,077</b>	<b>24,837</b>	<b>23,916</b>	<b>24,100</b>
<b>Net assets of the shareholder of AMP Life Limited and non-controlling interests</b>		<b>1,829</b>	<b>1,836</b>	<b>1,817</b>	<b>1,824</b>
<b>Equity<sup>(1)</sup></b>					
Contributed equity		158	303	158	303
Reserves		50	(18)	50	(18)
Retained earnings		1,609	1,539	1,609	1,539
<b>Total equity attributable to the shareholder of AMP Life Limited</b>		<b>1,817</b>	<b>1,824</b>	<b>1,817</b>	<b>1,824</b>
Non-controlling interests		12	12	-	-
<b>Total equity of the shareholder of AMP Life Limited and non-controlling interests</b>		<b>1,829</b>	<b>1,836</b>	<b>1,817</b>	<b>1,824</b>

### 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 2 May 2014:



Director



Director

# AMP Life Limited Statutory Fund No.1 Financial Report

## Statement of change in equity

for the year ended 31 December 2013

### Consolidated

	Equity attributable to the 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
<b>2013</b>						
Balance at the beginning of the year	303	(18)	1,539	1,824	12	1,836
Profit	-	-	278	278	-	278
Other comprehensive income	-	68	-	68	-	68
Total comprehensive income	-	68	278	346	-	346
Transfer to AMP Life Limited Shareholders Fund	-	-	(208)	(208)	-	(208)
Return of capital	(145)	-	-	(145)	-	(145)
<b>Balance at the end of the year</b>	<b>158</b>	<b>50</b>	<b>1,609</b>	<b>1,817</b>	<b>12</b>	<b>1,829</b>
<b>2012</b>						
Balance at the beginning of the year	303	(33)	1,471	1,740	17	1,757
Profit (loss) for the year	-	-	330	330	-	330
Other comprehensive income	-	16	-	16	-	16
Total comprehensive income	-	16	330	346	-	346
Transfer to AMP Life Limited Shareholders Fund	-	-	(262)	(262)	-	(262)
(Sales) and acquisitions of non-controlling interest	-	-	-	-	(5)	(5)
<b>Balance at the end of the year</b>	<b>303</b>	<b>(18)</b>	<b>1,539</b>	<b>1,824</b>	<b>12</b>	<b>1,836</b>

### Parent

	Contributed equity \$m	Foreign currency translation reserve \$m	Retained earnings \$m	Total equity \$m
<b>2013</b>				
Balance at the beginning of the year	303	(18)	1,539	1,824
Profit for the year	-	-	278	278
Other comprehensive income	-	68	-	68
Total comprehensive income	-	68	278	346
Transfer to AMP Life Limited Shareholders Fund	-	-	(208)	(208)
Return of capital	(145)	-	-	(145)
<b>Balance at the end of the year</b>	<b>158</b>	<b>50</b>	<b>1,609</b>	<b>1,817</b>
<b>2012</b>				
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 Shareholders Fund	-	-	(262)	(262)
<b>Balance at the end of the year</b>	<b>303</b>	<b>(18)</b>	<b>1,539</b>	<b>1,824</b>

# AMP Life Limited Statutory Fund No.1 Financial Report

## Statement of cash flows

for the year ended 31 December 2013

		Consolidated		Parent	
	Note	2013	2012	2013	2012
		\$m	\$m	\$m	\$m
<b>Cash flows from operating activities</b>					
Cash receipts in the course of operations		1,894	2,202	1,736	2,228
Interest and other items of a similar nature received		632	719	589	677
Dividends and distributions received		431	375	341	255
Cash payments in the course of operations		(4,015)	(2,443)	(3,501)	(2,690)
Finance costs		(20)	(37)	(18)	(33)
Income tax paid		(208)	(259)	(208)	(257)
<b>Cash flows from/(used in) operating activities</b>	21(a)	<b>(1,286)</b>	<b>557</b>	<b>(1,061)</b>	<b>180</b>
<b>Cash flows from investing activities</b>					
Net proceeds from sale of/(payments to acquire):					
- investment property		2	787	(1)	(2)
- investments in financial assets <sup>(1)</sup>		1,777	10	1,744	(351)
Net cash acquired / (disposal of) in business combinations		-	(1,297)	-	-
<b>Cash flows (used in)/from investing activities</b>		<b>1,779</b>	<b>(500)</b>	<b>1,743</b>	<b>(353)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		(7)	(209)	(47)	(4)
Proceeds from issue of subordinated debt		170	-	170	-
Capital return	15	(145)	-	(145)	-
<b>Cash flows used in financing activities</b>		<b>18</b>	<b>(209)</b>	<b>(22)</b>	<b>(4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>511</b>	<b>(152)</b>	<b>660</b>	<b>(177)</b>
Cash and cash equivalents at beginning of the year		4,816	4,963	4,583	4,759
Effect of exchange rate changes on cash and cash equivalents		-	5	-	1
<b>Cash and cash equivalents at the end of the year</b>	21(b)	<b>5,327</b>	<b>4,816</b>	<b>5,243</b>	<b>4,583</b>

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.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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 2013 were authorised by the directors of AMP Life Limited on 2 May 2014 and have been prepared for the purpose of lodgement 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 Board.

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

The following Australian Accounting Standards and amendments have become mandatory for adoption from 1 January 2013, but have not had any material effect on the financial position or performance of AMP Life:

- AASB 10 *Consolidated Financial Statements* and revised AASB 127 *Separate Financial Statements*. These standards have changed the criteria for determining which entities are to be consolidated.
- Revised AASB 101 *Presentation of Financial Statements*. The changes introduced by the revised AASB 101 relate to presentation only, and have resulted in items in the Statement of comprehensive income being segregated between those that may eventually be realised in the Income statement in future periods and those that will not.
- AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, 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 have changed the criteria for determining which entities are to be accounted for using the equity method in preparing consolidated financial statements and the required disclosures in relation to consolidated entities, joint arrangements, joint operations, associates and structured entities.
- AASB 13 *Fair Value Measurement*. This standard has centralised the definition and guidance for measuring 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 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*. This standard has amended the disclosures in AASB 7 *Financial Instruments: Disclosures* to require information on the effect or potential effect of netting arrangements, including rights of set-off associated with the group's recognised financial assets and recognised financial liabilities.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*. These amendments have clarified the meaning of 'currently has a legally enforceable right to set off' and the application of AASB 132 *Financial Instruments: Presentation* offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous.
- AASB 2012-5 *Amendments Arising From the 2009-2011 Annual Improvements Project*. These amendments have clarified the disclosure requirements for segment assets and liabilities in interim financial statements to align reporting within interim financial statements to the requirements of AASB 8 *Operating Segments*.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

- AASB 2012-10 *Amendments to Australian Accounting Standards – transition guidance and other amendments* makes various editorial amendments to a range of Australian Accounting Standards and amendments to AASB 10 and related Standards to revise the transition guidance for initial application of those Standards.
- AASB 2012-9 *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039* removes the requirement to apply *Interpretation 1039* relating to consideration of substantive enactment of major tax Bills in Australia.
- AASB 2013-2 *Amendments to AASB 1038 – Regulatory Capital*. This standard amends the life insurance capital disclosure requirements so as to align the terminology with that used in the Australian Prudential Regulatory Authority's revised capital requirements which applied from 1 January 2013.

#### *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, other than set out below:

- 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. This standard also makes significant changes to hedge accounting requirements and disclosures. This standard is mandatory for adoption by AMP Life SF1 for the year ending 31 December 2017, however early application is permitted in certain circumstances. The financial impact to AMP Life SF1 of adopting AASB9 has not yet been quantified.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* and additions to Corporations Regulations 2001 Regulation 2M.3.03. The revised amendments to AASB 124 remove individual key management personnel disclosures. The revised AASB 124 is mandatory for adoption by AMP Life SF1 in the year ending 31 December 2014. The changes to AASB 124 relate to presentation only and are not expected to have a financial impact on AMP Life SF1.

#### (b) Principles of consolidation

The financial statements consolidate the financial information of controlled entities. Effective 1 January 2013, the adoption of AASB 10 and revised AASB 127 has changed the criteria for determining control. Previously, control was assessed based on when AMP Life SF1 had the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. Since 1 January 2013, an entity is controlled when AMP Life SF1 is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

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 ensure conformity with the group's accounting policies.

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 managed investment scheme 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 entities attributable to non-controlling interests is disclosed as a separate line item 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 shareholder of 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 include the results for the part of the reporting period during which the parent entity had control.

Most other acquisitions and disposals of controlled entities are in relation to managed investment schemes with underlying net assets typically comprising investment assets and 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.

All inter-company balances and transactions are eliminated in full, including unrealised profits arising from intra-group transactions.

#### *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 fund are consolidated into the AMP Life SF1 financial statements.

The majority of AMP Life SF1's investments are held through controlling interests in a number of managed investment schemes and companies. These investment assets are held on behalf of policyholders and the statutory funds 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.

Certain controlled entities of AMP Life SF1 are operating companies that carry out business operations unrelated to the core wealth management operations of the AMP Life group.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (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 purposes of this Financial Report, holders of investment contracts or life insurance contracts are collectively and individually referred to as *policyholders*.

#### *Investment contracts*

The majority of the business of AMP Life SF1 relates to wealth-management products such as savings, investment-linked and retirement income policies. The nature of this business is that AMP Life SF1 receives deposits from policyholders and those funds are invested on behalf of the policyholders. With the exception of fixed retirement income policies, the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. For fixed retirement income policies, the resulting liability is linked to the fair value of the fixed retirement income payments and associated management services.

Under 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.

Under Australian Accounting Standards, such contracts are defined as *life insurance contracts*.

#### *Assets measurement basis*

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 statutory fund and, as such, are separately identifiable.

#### (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 designated as financial assets measured at fair value through profit or loss. Reinsurance and other recoveries are discounted to present value. Receivables that do not back investment contract and life insurance contract liabilities are measured at 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.

#### (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. Transaction costs are expensed as incurred in profit or loss. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the Statement of comprehensive income in the period in which they arise.

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.
- There is no reduction for realisation costs in determining fair value.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 1(o).



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### *Investments in controlled entities*

Investments by AMP Life SF1 in controlled entities are measured at fair value through profit or loss.

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

#### **(h) Investment property**

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

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

Changes in value of investment property are taken directly to the 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 SF1 and the cost of the item can be reliably measured.

#### **(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, investment property and financial assets measured at fair value through profit or loss are not subject to impairment testing. Other assets such as property and plant and equipment are subject to impairment testing.

Impairment is recognised in the Statement of comprehensive income, measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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, the head entity (AMP Limited) 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 (transactions occurring after the implementation date only); 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 relevant tax authorities.

Assets and liabilities that arise as a result of balances transferred to/from entities within the tax-consolidated group to the head entity are recognised as related-party balances receivable and payable in the Statement of financial position of 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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

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

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 are not included in income tax expense.

#### *Deferred tax*

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

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

#### *Goods and services tax*

AMP Life 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.

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 SF1 expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

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.

#### (n) Borrowings and subordinated debt

All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value. In the case of borrowings and subordinated debt that are subsequently measured at amortised cost, initial fair value is calculated net of directly attributable transaction costs. For borrowings and subordinated debt that are subsequently measured at fair value through profit or loss, directly attributable transaction costs are expensed.

Borrowings and subordinated debt, are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

Borrowings of controlled managed investment schemes of the statutory funds are measured at amortised cost for the purpose of determining the unit price of those schemes. These borrowings are measured at amortised cost in this Financial Report with any difference between the proceeds (net of transaction costs) and the redemption amount recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

All other borrowings of the controlled entities of the statutory funds are subsequently measured at fair value with movements recognised in the Statement of comprehensive income.

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

AMP Life SF1 is exposed to changes in interest and foreign exchange rates as well as movements in the fair value of investment guarantees it has issued in respect of its products. To mitigate the risks arising from these exposures, AMP Life SF1 uses derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts. Derivative financial instruments are also used to gain exposure to various markets for 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.

Derivatives held in AMP Life SF1 are not designated as hedging instruments. As such, 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 SF1 becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

#### (q) Life insurance contract liabilities

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

Under MoS, the excess of premium received over claims and expenses (the *margin*) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the *service*). The 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.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### *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 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 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) Life Insurance 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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

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 operations*

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

- Income and expenses are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. In this case, income and expenses are translated at the dates of the transactions;
- Assets and liabilities are translated at the closing rate at the reporting date; 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 relating to that operation is recognised in the Statement of comprehensive income as part of the gain or loss on sale. If a portion of the operation is sold, the proportionate share of the cumulative amount is recognised.

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

##### *Life insurance contracts*

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

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

##### *Investment contracts*

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

- origination fees 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 SF1 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 SF1 obtains control of the right to receive the revenue.

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

Rents raised are on terms in accordance with individual leases. 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 a liability to a policyholder under the life insurance contract has been established or upon notification of the insured event, depending on the type of claim.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### *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, are expensed as incurred. See Note 1(q).

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, borrowings and subordinated debt; and
  - amortisation of discounts or premiums related to borrowings;
- (ii) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are recognised as expenses when incurred.

### 2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the Financial Report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements. Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events. Significant accounting judgements, estimates and assumptions include but are not limited to:

#### **(a) Consolidation**

Entities are included within the consolidated financial statements of the AMP Life SF1 group where AMP Life SF1 has control over the entities. Control arises from exposure, or rights, to variable returns from involvement with an entity, where AMP Life SF1 has the ability to affect those returns through its power over the entity. Judgement is applied by management in assessing whether control exists.

Judgement is applied in determining the relevant activities of each entity and determining whether AMP Life SF1 has power over these activities. This involves assessment of the purpose and design of the entity, identification of the activities that significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights, contractual arrangements with the entity or other parties and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Consideration is also given to the practical ability of other parties to exercise their rights.

Judgement is also applied in identifying the variable returns of each entity and assessing AMP Life SF1's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

#### **(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 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.

#### **(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 carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets.

## AMP Life Limited Statutory Fund No.1 Financial Report

### Notes to financial statements

for the year ended 31 December 2013

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

##### (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 24 provides information of contingent liabilities that management determined did not meet the criteria for recognition as provisions.

##### (f) Life 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 life insurance contract liabilities is set out in Note 16.

##### (g) Investment contract liabilities

Investment contract liabilities are measured at fair value. The majority of investment contract liabilities are backed by cash held as deposits which are measured at fair value, being the principal amount. 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 detail on the determination of the fair value of investment contract liabilities is set out in Note 19.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 3. REVENUE AND INVESTMENT INCOME

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>(a) Fee revenue</b>				
Investment management fees	43	46	44	47
<b>Total fee revenue<sup>(1)</sup></b>	<b>43</b>	<b>46</b>	<b>44</b>	<b>47</b>
<b>(b) Other revenue</b>				
Other revenue <sup>(1)</sup>	3	14	3	4
<b>Total other revenue</b>	<b>3</b>	<b>14</b>	<b>3</b>	<b>4</b>
<b>(c) Investment gains and (losses)</b>				
Interest <sup>(2)</sup>				
- related entities	130	156	130	157
- other entities	502	562	459	519
Dividends and distributions				
- related entities	208	231	218	248
- associated entities	47	69	42	62
- other entities	314	323	219	193
Rental income	51	51	10	12
Net realised and unrealised gains and (losses) <sup>(3)</sup>	183	658	302	859
Other investment income	6	20	3	20
<b>Total investment gains and (losses)</b>	<b>1,441</b>	<b>2,070</b>	<b>1,383</b>	<b>2,070</b>

#### 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.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 4. EXPENSES

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>(a) Operating expenses</b>				
Commission and advisory fee-for-service expense	(149)	(152)	(149)	(152)
Investment management expenses				
- related entities	(51)	(54)	(43)	(50)
- other entities	(10)	(10)	(4)	(4)
<b>Fee and commission expenses<sup>(1)</sup></b>	<b>(210)</b>	<b>(216)</b>	<b>(196)</b>	<b>(206)</b>
Direct property expenses <sup>(2)</sup>	(9)	(15)	(2)	(4)
Service fee expense				
- related entities	(394)	(369)	(394)	(369)
Depreciation of property, plant and equipment	(7)	(9)	(7)	(9)
Other expenses	(52)	(44)	(42)	(41)
<b>Other operating expenses<sup>(3)</sup></b>	<b>(462)</b>	<b>(437)</b>	<b>(445)</b>	<b>(423)</b>
<b>Total operating expenses</b>	<b>(672)</b>	<b>(653)</b>	<b>(641)</b>	<b>(629)</b>
<b>(b) Finance costs</b>				
Interest expense on borrowings				
- other entities	(17)	(28)	(17)	(27)
Other finance costs	(3)	(6)	(1)	(5)
<b>Total finance costs</b>	<b>(20)</b>	<b>(34)</b>	<b>(18)</b>	<b>(32)</b>

#### 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 related to investment properties that 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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 5. INCOME TAX

	Consolidated		Parent	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
<b>(a) Analysis of income tax expense</b>				
Current tax expense	(60)	(210)	(59)	(210)
Increase/(Decrease) in deferred tax assets	24	(2)	24	(2)
Increase in deferred tax liabilities	(79)	(114)	(79)	(114)
Over (under) provided in previous years including amounts attributable to policyholders	(1)	6	(1)	6
<b>Income tax expense</b>	<b>(116)</b>	<b>(320)</b>	<b>(115)</b>	<b>(320)</b>

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

The following table provides a reconciliation of differences between prima facie tax calculated as 30 per cent of the profit before income tax for the year and the actual income tax expense recognised in the Statement of comprehensive income for the year. The income tax expense amount reflects the impact of both income tax attributable to the shareholder as well as income tax attributable to policyholders. In respect of income tax expense attributable to the shareholder, the tax rate is 30 per cent in Australia and 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 New Zealand life insurance business is taxed at 28 percent.

	Consolidated		Parent	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Profit/(loss) before income tax	394	650	393	650
Policyholder tax (expense) credit recognised as part of the change in policyholder liabilities in determining profit before tax	(30)	(182)	(30)	(182)
<b>Profit before income tax excluding policyholder tax</b>	<b>364</b>	<b>468</b>	<b>363</b>	<b>468</b>
Prima facie shareholder tax at the rate of 30%	(109)	(140)	(109)	(140)
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	10	1	10	1
Non-deductible expenses	(2)	3	(2)	3
Non-taxable income	14	5	14	5
Tax offsets and credits	4	4	4	4
Other items	-	(12)	-	(12)
Over/(under) provided in previous years after excluding amounts attributable to policyholders	(3)	-	(2)	-
Differences in overseas tax rate	-	1	-	1
<b>Income tax expense attributable to the shareholder</b>	<b>(86)</b>	<b>(138)</b>	<b>(85)</b>	<b>(138)</b>
<b>Income tax expense attributable to policyholders</b>	<b>(30)</b>	<b>(182)</b>	<b>(30)</b>	<b>(182)</b>
<b>Income tax expense per Income statement</b>	<b>(116)</b>	<b>(320)</b>	<b>(115)</b>	<b>(320)</b>

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 5. INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>(c) Analysis of deferred tax assets</b>				
Expenses deductible and income recognisable in future years	14	13	14	13
Unrealised investment losses	50	28	50	28
Losses available for offset against future taxable income	12	13	12	13
Other	16	8	16	8
<b>Total deferred tax assets</b>	<b>92</b>	<b>62</b>	<b>92</b>	<b>62</b>
<b>(d) Analysis of deferred tax liabilities</b>				
Unrealised investment gains	477	341	477	341
Other	141	170	141	170
<b>Total deferred tax liabilities</b>	<b>618</b>	<b>511</b>	<b>618</b>	<b>511</b>

### 6. RECEIVABLES

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
Investment income receivable	34	51	34	54
Investment sales and margin accounts receivable	375	227	341	223
Life insurance contract premiums receivable	269	270	269	270
Reinsurance and other recoveries receivable	13	10	13	10
Reinsurers' share of life insurance contract liabilities	96	119	96	119
Trade debtors <sup>(1)</sup>	3	-	1	-
Other receivables				
- related entities	183	342	154	35
- other entities	5	21	8	15
<b>Total receivables<sup>(1)</sup></b>	<b>978</b>	<b>1,040</b>	<b>916</b>	<b>726</b>

**Footnote:**

(1) \$47m (2012: \$81m) of total consolidated receivables is expected to be recovered more than 12 months from the reporting date. \$47m (2012: \$81m) of total receivables of the parent entity is expected to be recovered more than 12 months from the reporting date.

### 7. OTHER ASSETS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>Inventories and other assets</b>				
Prepayments	3	3	2	1
<b>Total inventories and other assets<sup>(1)</sup></b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>

**Footnote:**

(1) \$nil (2012: \$nil) of other assets is expected to be recovered more than 12 months from reporting date.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 8. INVESTMENTS IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>Investments in financial assets measured at fair value through profit or loss</b>				
Equity securities and listed managed investment schemes	5,468	4,818	4,116	3,948
Debt securities <sup>(1)</sup>	9,089	9,301	9,030	9,244
Investments in unlisted managed investment schemes	6,114	6,472	6,120	6,253
Derivative financial assets	357	398	299	359
Other financial assets	-	9	-	9
<b>Total investments in financial assets measured at fair value through profit or loss</b>	<b>21,028</b>	<b>20,998</b>	<b>19,565</b>	<b>19,813</b>
<b>Investments in controlled entities</b>				
- measured at fair value	-	-	1,893	1,435
<b>Total investments in controlled entities</b>	<b>-</b>	<b>-</b>	<b>1,893</b>	<b>1,435</b>
<b>Other financial liabilities</b>				
Derivative financial liabilities	344	158	288	114
Collateral deposits held <sup>(2)</sup>	595	549	595	549
<b>Total other financial liabilities</b>	<b>939</b>	<b>707</b>	<b>883</b>	<b>663</b>

#### Footnote:

- (1) Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life statutory funds and the controlled entities of the life statutory funds.
- (2) Collateral deposits held represents the obligation to repay collateral held in respect of debt security repurchase arrangements entered into by the statutory fund.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 9. INVESTMENT PROPERTIES

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>Investment property<sup>(1)</sup></b>				
Directly held	586	579	133	132
<b>Total investment property</b>	<b>586</b>	<b>579</b>	<b>133</b>	<b>132</b>
<b>Movements in investment property</b>				
Balance at the beginning of the year	579	1,357	132	130
Additions				
- subsequent expenditure recognised in carrying amount	8	10	1	2
Acquisitions (disposals) through business combinations	-	(793)	-	-
Net gains (losses) from fair value adjustments	(2)	5	-	-
Foreign currency exchange differences	1	-	-	-
<b>Balance at the end of the year</b>	<b>586</b>	<b>579</b>	<b>133</b>	<b>132</b>

**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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

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 that 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.

Refer to note 19 Fair value information for details regarding fair value measurement.

	Consolidated and Parent	
	2013	2012
	\$m	\$m
<b>Primary assumptions used in valuing investment property</b>		
Capitalisation rates	5.75% - 10.00%	6.75% - 10.25%
Market determined, risk adjusted discount rate	8.50% - 11.00%	8.75% - 10.25%

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 10. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Leasehold Improvements	Plant & Equipment	Total
2013	\$m	\$m	\$m
<b>Property, plant and equipment</b>			
Gross carrying amount	71	94	165
Less: accumulated depreciation and impairment losses	(60)	(76)	(136)
<b>Property, plant and equipment at written down value</b>	<b>11</b>	<b>18</b>	<b>29</b>

#### Movements in property, plant and equipment

Balance at the beginning of the year	10	16	26
Additions			
- through direct acquisitions	2	10	12
Disposals	-	(2)	(2)
Depreciation expense for the period	(1)	(6)	(7)
<b>Balance at the end of the year</b>	<b>11</b>	<b>18</b>	<b>29</b>

Consolidated	Leasehold Improvements	Plant & Equipment	Total
2012	\$m	\$m	\$m
<b>Property, plant and equipment</b>			
Gross carrying amount	69	86	156
Less: accumulated depreciation and impairment losses	(59)	(70)	(130)
<b>Property, plant and equipment at written down value</b>	<b>10</b>	<b>16</b>	<b>26</b>

#### 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 period	(4)	(5)	(9)
<b>Balance at the end of the year</b>	<b>10</b>	<b>16</b>	<b>26</b>

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Parent	Leasehold Improvements	Plant & Equipment	Total
2013	\$m	\$m	\$m
<b>Property, plant and equipment</b>			
Gross carrying amount	71	76	147
Less: accumulated depreciation and impairment losses	(60)	(61)	(121)
<b>Property, plant and equipment at written down value</b>	<b>11</b>	<b>15</b>	<b>26</b>

#### Movements in property, plant and equipment

Balance at the beginning of the year	10	13	23
Additions			
- through direct acquisitions	2	10	12
Disposals	-	(2)	(2)
Depreciation expense for the year	(1)	(6)	(7)
<b>Balance at the end of the year</b>	<b>11</b>	<b>15</b>	<b>26</b>

Parent	Leasehold Improvements	Plant & Equipment	Total
2012	\$m	\$m	\$m
<b>Property, plant and equipment</b>			
Gross carrying amount	69	71	140
Less: accumulated depreciation and impairment losses	(59)	(58)	(117)
<b>Property, plant and equipment at written down value</b>	<b>10</b>	<b>13</b>	<b>23</b>

#### 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)
<b>Balance at the end of the year</b>	<b>10</b>	<b>13</b>	<b>23</b>

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 11. PAYABLES

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
Life insurance and investment contracts in process of settlement	166	142	166	142
Accrued expenses	7	10	6	9
Interest payable				
- other entities	1	1	1	1
Other payables				
- related entities	150	466	427	250
- other entities	123	123	101	111
<b>Total payables<sup>(1)</sup></b>	<b>447</b>	<b>742</b>	<b>701</b>	<b>513</b>

#### Footnote:

(1) \$nil (2012: \$1m) of consolidated total payables is expected to be settled more than 12 months from the reporting date and \$nil (2012: \$nil) of total parent payables is expected to be settled more than 12 months from the reporting date.

### 12. PROVISIONS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>Provisions</b>				
Employee entitlements	2	2	-	-
Other	3	5	1	1
<b>Total provisions</b>	<b>5</b>	<b>7</b>	<b>1</b>	<b>1</b>

	Employee entitlements	Other	Total
	\$m	\$m	\$m
<b>Movements in provisions - Consolidated</b>			
Balance at the beginning of the year	2	5	7
Provisions used during the year	-	(2)	(2)
<b>Balance at the end of the year<sup>(1)</sup></b>	<b>2</b>	<b>3</b>	<b>5</b>

#### Footnote:

(1) \$nil (2012: \$nil) of the consolidated balance is expected to be settled more than 12 months from the reporting date.

	2013	2012
	\$m	\$m
<b>Movements in provisions - Parent</b>		
Balance at the beginning of the year	1	1
Additional provisions made during the year	-	1
Provision used during the year	-	(1)
<b>Balance at the end of the year<sup>(1)</sup></b>	<b>1</b>	<b>1</b>

#### Footnote:

(1) \$nil (2012: \$nil) of the parent balance is expected to be settled more than 12 months from the reporting date.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 13. BORROWINGS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
Deposits	111	121	111	121
Other borrowings				
- related parties	172	169	226	263
- other parties	14	13	-	-
<b>Total borrowings<sup>(1)</sup></b>	<b>297</b>	<b>303</b>	<b>337</b>	<b>384</b>

**Footnote:**

(1) \$14m (2012: \$13m) of consolidated borrowings are expected to be settled more than 12 months from the reporting date. All parent borrowings are current.

### 14. SUBORDINATED DEBT

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
AMP Notes 2 (first call date 2018, maturity 2023) <sup>(1)</sup>	170	-	170	-
<b>Total subordinated debt<sup>(2)</sup></b>	<b>170</b>	<b>-</b>	<b>170</b>	<b>-</b>

**Footnote:**

(1) AMP Limited Floating Rate unsecured notes were issued on 18 December 2013 and are listed on the ASX. AMP Limited lent the proceeds of this transaction to AMP Life. In certain circumstances, AMP Limited may be required to convert some or all of AMP Notes 2 into AMP ordinary shares.

(2) \$170m of this balance is expected to be settled more than 12 months from the reporting date.

### 15. 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

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>Movements in contributed equity</b>				
Balance at the beginning of the year	303	303	303	303
3,164,327 (31 December 2012: 3,164,327) ordinary shares fully paid				
Return of capital <sup>(1)</sup>	(145)	-	(145)	-
<b>Total balance of contributed equity at the end of the year</b>	<b>158</b>	<b>303</b>	<b>158</b>	<b>303</b>

**Footnote:**

(1) As part of the subordinated debt transaction, \$145m of capital was returned to the sole shareholder.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS

	Consolidated and Parent	
	2013	2012
	\$m	\$m
<b>(a) Analysis of life insurance contract premium and related revenue</b>		
Total life insurance contract premiums received and receivable	1,939	2,141
Less: component recognised as a change in life insurance contract liabilities	(717)	(981)
Life insurance contract premium revenue <sup>(1)</sup>	1,222	1,160
Reinsurance recoveries	40	44
<b>Total life insurance contract premium and related revenue</b>	<b>1,262</b>	<b>1,204</b>
<b>(b) Analysis of life insurance contract claims and related expenses</b>		
Total life insurance contract claims paid and payable	(2,450)	(2,243)
Less: component recognised as a change in life insurance contract liabilities	1,203	1,027
Life insurance contract claims expense	(1,247)	(1,216)
Outwards reinsurance expense	(50)	(47)
<b>Total life insurance contract claims and related expenses</b>	<b>(1,297)</b>	<b>(1,263)</b>
<b>(c) Analysis of life insurance contract operating expenses</b>		
Life insurance contract acquisition expenses		
- Commission	(40)	(53)
- Other expenses	(88)	(88)
Life insurance contract maintenance expenses		
- Commission	(101)	(97)
- Other expenses	(289)	(295)
Investment management expenses	(41)	(40)

#### Footnote:

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

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated and Parent	
	2013	2012
	\$m	\$m
<b>(d) Life insurance contract liabilities</b>		
<b>Life insurance contract liabilities determined using projection method</b>		
<i>Best estimate liability</i>		
- value of future life insurance contract benefits	11,565	12,701
- value of future expenses	2,885	3,184
- value of future premiums	(10,842)	(11,944)
<i>Value of future profits</i>		
- life insurance contract holder bonuses	2,241	1,874
- shareholders' profit margins	2,430	2,590
<b>Total life insurance contract liabilities determined using the projection method<sup>(1)</sup></b>	<b>8,279</b>	<b>8,405</b>
<b>Life insurance contract liabilities determined using the accumulation method</b>		
<i>Best estimate liability</i>		
- Value of future life insurance contract benefits	7,682	7,854
- Value of future acquisition expenses	(5)	(6)
<b>Total life insurance contract liabilities determined using the accumulation method</b>	<b>7,677</b>	<b>7,848</b>
Value of declared bonus	202	198
Unvested policyholder benefits liabilities <sup>(1)</sup>	1,621	1,374
<b>Total life insurance contract liabilities before reinsurance</b>	<b>17,779</b>	<b>17,825</b>
Add: Reinsurers' share of life insurance contract liabilities	96	119
<b>Total life insurance contract liabilities per the Statement of financial position</b>	<b>17,875</b>	<b>17,944</b>

**Footnote:**

(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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

	Note	2013 \$m	Parent 2012 \$m
<b>(e) Reconciliation of changes in life insurance contract liabilities</b>			
Total life insurance contract liabilities at the beginning of the year		17,944	17,345
Change in life insurance contract liabilities recognised in the income statement		201	557
Premiums recognised as an increase in life insurance contract liabilities	16(a)	717	981
Claims recognised as a decrease in life insurance contract liabilities	16(b)	(1,203)	(1,027)
Change in reinsurers' share of life insurance contract liabilities		(23)	21
Foreign exchange adjustment		239	67
<b>Total life insurance contract liabilities at the end of the period</b>	<b>16(d)</b>	<b>17,875</b>	<b>17,944</b>

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

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to Note 1(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 protection - Australia)	Projection	Expected claims
Retail risk (income protection - New Zealand)	Projection	Expected premiums
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

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 <sup>(1)</sup>	31 December 2013		31 December 2012	
		Australia	New Zealand	Australia	New Zealand
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	2.5% - 5.5%	3.2% - 5.4%	2.6% - 4.4%	2.5% - 4.1%
Retail risk and group risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	2.7% - 5.7%	3.5% - 5.7%	2.9% - 4.7%	2.8% - 4.4%
Life annuities	Zero coupon government bond yield curve (including liquidity premium)	2.8% - 5.8%	3.6% - 5.7%	3.0% - 4.8%	2.9% - 4.5%
	Commonwealth indexed bond yield curve (including liquidity premium)	1.2% - 2.6%	2.2% - 3.8%	0.8% - 1.8%	1.0% - 2.0%

#### Footnotes:

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

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. 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
<b>Australia</b>						
31 December 2013	4.3%	4.5%	3.5%	2.5%	0.6%	(0.5)%
31 December 2012	3.3%	4.5%	3.5%	2.5%	0.8%	(0.5)%
<b>New Zealand</b>						
31 December 2013	4.8%	4.5%	3.5%	2.5%	0.6%	(0.5)%
31 December 2012	3.6%	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.

Average asset mix	Equities	Property	Fixed interest	Cash
<b>Australia</b>				
31 December 2013	29%	10%	40%	21%
31 December 2012	30%	11%	39%	20%
<b>New Zealand</b>				
31 December 2013	40%	17%	37%	6%
31 December 2012	40%	17%	37%	6%

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

#### (iii) Future participating benefits

For participating business, the total value of future bonuses (and the associated shareholder 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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

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

Typical supportable bonus rates on major product lines are as follows (31 December 2012 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	1.0% - 1.4% (0.4% - 0.9%)	1.4% - 2.1% (0.7% - 0.9%)
New Zealand	0.9% - 1.3% (0.4% - 0.7%)	0.9% - 1.3% (0.4% - 0.7%)

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

Crediting rates (investment account)	
Australia	2.4% - 6.7% (2.2% - 4.6%)
New Zealand	3.9% - 5.2% (2.9% - 3.1%)

#### (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 future 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 2013	2.6% CPI	3.0% Expense	2.5% CPI	3.0% Expense
31 December 2012	2.7% 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 is extremely diverse.

The assumptions for future rates of discontinuance for the major classes of life insurance contracts are shown in the following table. The table includes the short term voluntary discontinuance assumptions for Australian risk business.

Business type	31 December 2013		31 December 2012	
	Australia	New Zealand	Australia	New Zealand
Conventional	2.1% - 3.0%	1.1% - 1.9%	2.1% - 3.0%	1.3% - 2.5%
Retail risk (lump sum)*	12.1% - 17.7%	12.0% - 13.0%	11.9% - 14.6%	10.5% - 12.0%
Retail risk (income benefit)	9.1% - 21.5%	7.0% - 12.0%	8.0% - 20.0%	7.0% - 12.0%
Flexible Lifetime Super (FLS) risk business	10.2% - 20.0%	n/a	8.8% - 22.7%	n/a

\* Excludes a small mortgage insurance product for which rates are typically higher than other products



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. 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 experiences.

Rates of mortality assumed at 31 December 2013 are as follows:

- Conventional and New Zealand are unchanged from those assumed at 31 December 2012 in Australia and New Zealand. The rates are based on IA95-97 with an allowance for future Conventional mortality improvement.
- Annuitant mortality rates are unchanged from those assumed in December 2012
- Australian Retail Risk mortality rates have changed to be based on the new Industry standard IA04-08 Death Without Riders table modified based on our aggregated experience but with overall product specific adjustment factors.

For TPD and Trauma business the Australian Retail Risk product assumptions have been changed to use the latest industry table IA04-08 modified based on our aggregated experience but with overall product specific adjustment factors. No changes have been made to the New Zealand assumptions.

For Income Protection business the assumptions have been updated to use the IAD89-93 standard table modified for AMP Australia and New Zealand combined experience with overall product specific adjustment factors. The adjustment factors include age, gender, occupation, waiting period, duration on claim, benefit band and benefit period.

The assumptions are summarised in the following table:

Conventional	Conventional - % of IA95-97	
	Male	Female
Australia	67.5%	67.5%
New Zealand	73.0%	73.0%

Risk products	Retail Lump Sum - % of table	
	Male	Female
Australia <sup>(1)</sup>	86% - 118%	86% - 118%
New Zealand <sup>(2)</sup>	63.0%	63.0%

(1) Base IA04-08 Death Without Riders table modified based on our aggregated experience but with overall product specific adjustment factors

(2) Base IA95-97 Death Without Riders table modified based on our aggregated experience but with overall product specific adjustment factors

Annuities <sup>(3)</sup>	Male - % of IML00*	Female - % of IFL00*
Australia and New Zealand	95%	80%

(3) Annuities tables modified for future mortality improvements

Typical morbidity assumptions, in aggregate, are as follows:

December 2013		
Income protection	Incidence rates - % of IAD 89-93	Termination rates (ultimate) - % of IAD 89-93
Australia	24% - 138%	44% - 68%
New Zealand	45% - 67%	57% - 67%

Retail Lump Sum	Male % of IA04-08	Female % of IA04-08
Australia TPD <sup>(4)</sup>	140% - 155%	177% - 196%
Australia Trauma <sup>(5)</sup>	105% - 110%	105% - 121%

(4) Base IA04-08 TPD & Trauma tables modified based on our aggregated experience but with overall product specific adjustment factors

(5) Base IA04-08 Trauma table modified for modified based on our aggregated experience but with overall product specific adjustment factors

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Actuaries Institute of Australia based on Australian insured lives experience from 1995–1997. The table has been modified to allow for future mortality improvement.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Actuaries Institute 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.
IA04-08 DTH	This was published by The Actuaries Institute under the name A graduation of the 2004-2008 Lump Sum Investigation Data. We refer to this table as IA04-08. The table contains separate graduations for Smoker, Non Smokers, Males and Females and Death With and Without Riders.
IA04-08 TPD	This is the TPD graduation published in the same paper as above.
IA04-08 Trauma	This is the trauma graduation published in the same paper as above.
IA08-93	A disability table developed by Actuaries Institute of Australia based on the Australian disability income experience for the period 1989-1993. This table has been extensively modified based on our aggregate experience

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2012 to 31 December 2013 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 life		
	Change in future profit margins	insurance contract liabilities	Change in shareholders' profit & equity
	\$m	\$m	\$m
Non-market related			
changes to discount rates	2	-	-
Mortality and morbidity	(52)	-	-
Discontinuance rates	(179)	-	-
Maintenance expenses	10	-	-
Other assumptions(1)	40	-	-

**Footnote:**

(1) Other assumption 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.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

#### (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 for AMP Life SF1, current shareholder period profit after income tax, and equity, to a number of possible changes in assumptions relating to insurance risk.

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
Mortality	10% increase in mortality rates	-	-	-	-
	50% increase in the rate of mortality improvement	-	-	-	-
Annuitant mortality	20% increase in lump sum disablement rates	-	-	-	-
Morbidity - lump sum disablement	10% increase in incidence rates	11	7	(8)	(5)
Morbidity - disability income	10% decrease in recovery rates	25	18	(17)	(13)
	10% increase in discontinuance rates	-	-	-	-
Discontinuance rates	10% increase in maintenance expenses	1	1	(1)	(1)
Maintenance expenses					

#### (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 risks, 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 that 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; and
- provide protection against large losses.

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

#### Terms and conditions of life insurance contracts

The nature of the terms of the 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 following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance contracts issued by AMP Life SF1 depend.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 16. LIFE INSURANCE CONTRACTS (CONTINUED)

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)</i>	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of the Life Company. Premium rates for yearly renewable business are not guaranteed and may be changed at the Life Company's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of any underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum insured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	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.
<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance when due. 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 shareholders with not less than 80% allocated to policyholders. Distribution of policyholder profit is through an interest rate mechanism.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities, interest rates.

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

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

	Up to 1 year \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
2013	746	1,989	6,891	9,626
2012	784	2,022	6,590	9,396

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 17. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

Consolidated and Parent		
	2013	2012
	\$m	\$m
<b>(a) Analysis of life insurance and investment contract profit</b>		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	273	258
- Profits (losses) arising from difference between actual and assumed experience	(31)	82
- Profits (losses) arising from changes in assumptions	(5)	(73)
<b>Profit related to life insurance and investment contract liabilities</b>	<b>237</b>	<b>267</b>
Attributable to:		
- Life insurance contracts	224	262
- Investment contracts	13	5
<b>Investment earnings on assets in excess of life insurance and investment contract liabilities</b>	<b>41</b>	<b>63</b>

#### (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 17(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		
	2013	2012
	\$m	\$m
<b>(c) Capital guarantees</b>		
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,216	13,530
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1	1
Other life insurance contracts with a guaranteed termination value		
- Current termination value	108	116

## AMP Life Limited Statutory Fund No.1 Financial Report

### Notes to financial statements

for the year ended 31 December 2013

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

##### (d) Capital requirements

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. New prudential capital standards for Australian Life and General Insurance Companies (LAGIC) were introduced effective 1 January 2013. This LAGIC framework is intended to take account of the full range of risks to which a regulated institution is exposed and introduces the prescribed capital amount (PCA) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The regulatory capital base and prescribed capital amounts at 31 December 2013 have been calculated based on the new standards. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

In addition to the regulatory capital requirements, AMP Life SF1 maintains a target surplus providing additional capital buffer against adverse events. AMP Life uses internal capital models to determine its target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The excess of AMP Life SF1's capital base over the prescribed capital amount required under LAGIC as at 31 December 2013 was \$535m.

Prior to 1 January 2013, AMP Life SF1 was required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. The purpose of the solvency requirement was to ensure, as far as practicable, that at any time the life company was able to meet all existing liabilities as they became due. The capital adequacy requirement was a separate requirement (usually greater), taking into account also viability as an ongoing concern. These were specified in the *Life Insurance Act 1995*, the previous *LPS 2.04 Solvency Standard* and *LPS 3.04 Capital Adequacy Standard*.

The Appointed Actuary of AMP Life has confirmed that the available assets of AMP Life SF1 have exceeded PCA at all times during 2013 and exceeded the previous capital adequacy and the solvency reserve required at all times during 2012.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

2013		\$m
<b>Capital Base</b>		
Net assets as per Life Insurance Act		1,817
Total regulatory adjustments to net assets		(741)
Common equity Tier 1 Capital		1,076
Total regulatory adjustments to Tier 1 Capital		-
Tier 2 Capital		170
Total regulatory adjustments to Tier 2 Capital		-
<b>Total capital base</b>	<b>A</b>	<b>1,246</b>
<b>Prescribed capital</b>		
Insurance risk charge		-
Asset risk charge		396
Asset concentration risk charge		-
Operational risk charge		84
Less aggregation benefit		-
Combined stress scenario adjustment		231
<b>Total Prescribed capital Amount (PCA)</b>	<b>B</b>	<b>711</b>
<b>Capital adequacy multiple</b>	<b>A/B</b>	<b>175%</b>

2012		\$m
<b>Solvency requirement</b>		
Net minimum termination value (MTV)		19,715
Adjusted other liabilities		2,378
Solvency reserve	<b>B</b>	2,518
<b>Total solvency requirement</b>	<b>A</b>	<b>24,611</b>
<b>Assets available for solvency</b>		
Net assets		1,824
Liability for unvested policy owner benefits		1,374
Excess of net policy liabilities (including policy owner bonuses) over MTV		697
<b>Total assets available for solvency</b>	<b>C</b>	<b>3,895</b>

Solvency Reserve %	<b>B/(A-B)*100</b>	<b>11.4%</b>
Coverage of Solvency Reserve	<b>C/B</b>	<b>1.5</b>

#### (e) Actuarial information

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

The liabilities to policyholders (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract) and solvency reserves have been determined at the reporting date in accordance with the 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 \$3,222m (2012: \$3,733m) of policy liabilities may be settled within 12 months of the reporting date.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (g) Disaggregated information

Information for all major components of the financial statements disaggregated between investment-linked and non-investment-linked business is provided with this note.

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

	Non Investment Linked 2013 \$m	Investment Linked 2013 \$m	Total Parent 2013 \$m
<b>Income and expenses of policyholder, shareholders, external unitholders and minority interests</b>			
Life insurance premium and related revenue	1,262	-	1,262
Fee and other revenue	45	2	47
Investment gains	1,368	15	1,383
Life insurance claims and related expenses	(1,297)	-	(1,297)
Operating expenses	(640)	(1)	(641)
Finance costs	(18)	-	(18)
Change in life insurance contract liabilities	(201)	-	(201)
Change in investment contract liabilities	(127)	(15)	(142)
<b>Profit before income tax</b>	<b>392</b>	<b>1</b>	<b>393</b>
Income tax expense	(114)	(1)	(115)
<b>Net profit for the year</b>	<b>278</b>	<b>-</b>	<b>278</b>

	Non Investment Linked 2012 \$m	Investment Linked 2012 \$m	Total Parent 2012 \$m
<b>Income and expenses of policyholder, shareholders, external unitholders and minority interests</b>			
Life insurance premium and related revenue	1,204	-	1,204
Fee and other revenue	49	2	51
Investment gains / (losses)	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)
<b>Profit before income tax</b>	<b>648</b>	<b>2</b>	<b>650</b>
Income tax (expense)/credit	(318)	(2)	(320)
<b>Net profit after income tax</b>	<b>330</b>	<b>-</b>	<b>330</b>



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 17. 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 2013 \$m	Investment Linked 2013 \$m	Elimination 2013 \$m	Total Parent 2013 \$m
<b>Assets</b>				
Investments in financial assets	19,493	116	(44)	19,565
Investment property	133	-	-	133
Investments in controlled entities	1,796	97	-	1,893
Other assets	4,181	(128)	89	4,142
<b>Total assets of policyholders, shareholder, external unit holders and minority interests</b>	<b>25,603</b>	<b>85</b>	<b>45</b>	<b>25,733</b>
<b>Liabilities</b>				
Life insurance contract liabilities	17,875	-	-	17,875
Investment contract liabilities	3,216	105	-	3,321
Other liabilities	2,695	(20)	45	2,720
<b>Total liabilities of policyholders, shareholder, external unit holders and minority interests</b>	<b>23,786</b>	<b>85</b>	<b>45</b>	<b>23,916</b>
<b>Net assets of AMP Life SF1</b>	<b>1,817</b>	<b>-</b>	<b>-</b>	<b>1,817</b>
<b>Equity</b>				
Contributed equity	158	-	-	158
Reserves	50	-	-	50
Retained earnings	1,609	-	-	1,609
<b>Total equity of AMP Life SF1</b>	<b>1,817</b>	<b>-</b>	<b>-</b>	<b>1,817</b>

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (g) Disaggregated information (continued)

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

	Non Investment Linked 2012 \$m	Investment Linked 2012 \$m	Elimination 2012 \$m	Total Parent 2012 \$m
<b>Assets</b>				
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
<b>Total assets of policyholders, shareholder, external unit holders and minority interests</b>	<b>25,585</b>	<b>172</b>	<b>167</b>	<b>25,924</b>
<b>Liabilities</b>				
Life insurance contract liabilities	17,944	-	-	17,944
Investment contract liabilities	3,874	88	-	3,962
Other liabilities	1,943	84	167	2,194
<b>Total liabilities of policyholders, shareholder, external unit holders and minority interests</b>	<b>23,761</b>	<b>172</b>	<b>167</b>	<b>24,100</b>
<b>Net assets of AMP Life SF1</b>	<b>1,824</b>	<b>-</b>	<b>-</b>	<b>1,824</b>
<b>Equity</b>				
Contributed equity	303	-	-	303
Reserves	(18)	-	-	(18)
Retained earnings	1,539	-	-	1,539
<b>Total equity of AMP Life SF1</b>	<b>1,824</b>	<b>-</b>	<b>-</b>	<b>1,824</b>



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (g) Disaggregated information (continued)

##### (iv) Retained earnings by non-investment linked and investment linked

	Non Investment Linked 2013 \$m	Investment Linked 2013 \$m	Total Parent 2013 \$m
Opening retained earnings	1,539	-	1,539
Profit for the year	278	-	278
Transfer to AMP Life Limited Shareholder Fund	(208)	-	(208)
<b>Closing retained earnings</b>	<b>1,609</b>	<b>-</b>	<b>1,609</b>

	Non Investment Linked 2012 \$m	Investment Linked 2012 \$m	Total Parent 2012 \$m
Opening retained earnings	1,471	-	1,471
Profit for the year	330	-	330
Transfer to AMP Life Limited Shareholder Fund	(262)	-	(262)
<b>Closing retained earnings</b>	<b>1,539</b>	<b>-</b>	<b>1,539</b>

##### (v) Contributed equity by non-investment linked and investment linked

	Non Investment Linked 2013 \$m	Investment Linked 2013 \$m	Total Parent 2013 \$m
Opening contributed equity	303	-	303
Return of capital	(145)	-	(145)
<b>Closing retained earnings</b>	<b>158</b>	<b>-</b>	<b>158</b>

	Non Investment Linked 2012 \$m	Investment Linked 2012 \$m	Total Parent 2012 \$m
Opening contributed equity	303	-	303
<b>Closing retained earnings</b>	<b>303</b>	<b>-</b>	<b>303</b>

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

#### Financial risk management

Financial risk management (FRM) in AMP Life SF1 is conducted as part of AMP group's enterprise risk management framework. The AMP Limited Audit Committee, supported by the Group Asset and Liability Committee (Group ALCO), is responsible for ensuring financial risks are appropriately managed.

#### (a) Risks and mitigation

Financial risks arising in AMP Life SF1 include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the Enterprise Risk Management Policy and individual policies for each risk category. This financial risk management includes 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.

Financial risk management includes decisions made about the allocation of investment assets across asset classes and/or markets and the management of risks within these asset classes. Financial risk for investments 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).

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 AMP Life arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, interest bearing investments and corporate debt.

#### (b) Market risk sensitivity analysis

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

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

#### (i) Interest rate risk

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

Interest rate risk arises from interest bearing financial assets and financial liabilities in various activities of the AMP group. Management of those risks is decentralised according to the activity. As discussed in note 1(b), AMP Life conducts its 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 shareholders arises in respect of financial assets and liabilities held in the shareholder fund and in the life statutory funds. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the life statutory funds to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (investment-linked business), there is no residual interest rate exposure which would impact shareholders.

Management of various risks associated with investments undertaken by life statutory funds and the life shareholder fund, such as interest rate risk, is subject to the relevant regulatory requirements governed by the *Life Act*. AMP Life is required to satisfy capital adequacy 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 capital 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 of AMP Life SF1. 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 AMP group.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

Change in variables	2013		2012	
	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	(23)	(23)	(49)	(49)
- 100 basis points	38	38	54	54

#### (ii) Currency risk

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

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

#### Currency risk sensitivity analysis

This analysis demonstrates the impact of a 10 per cent movement of currency rates against the Australian dollar, with all other variables held constant, on the profit after tax and equity of AMP Life SF1 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 group.

Change in variables	2013		2012	
	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 Life SF1's profit after tax and equity from movements in equity prices. AMP Life SF1 measures equity securities at fair value through profit or loss.

#### Equity price risk sensitivity analysis

The analysis demonstrates the impact of a 10 per cent movement in Australian and International equities held at the reporting date. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments. Any potential indirect impact on fees from AMP Life SF1's investment linked business is not included. A sensitivity level of 10 per cent is determined considering the widely spread portfolios held by AMP Life SF1 and the range of movements in equity markets for the periods.

Change in variables	2013		2012	
	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	3	3	9	9
10% increase in International equities	1	1	10	10
10% decrease in Australian equities	(4)	(4)	(5)	(5)
10% decrease in International equities	(1)	(1)	(1)	(1)

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (c) Liquidity and refinancing risk

Liquidity risk is the risk that AMP Life SF1 is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk is the risk that AMP Life SF1 is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.

The following table summarises the maturity profiles of AMP Life SF1's undiscounted financial liabilities and off-balance sheet items at the reporting date. The maturity profiles are based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

Consolidated	Up to 1 Year or no term \$m	1 to 5 Years \$m	More than 5 Years \$m	Other <sup>(2)</sup> \$m	Total \$m
<b>2013</b>					
<b>Non-derivative financial liabilities<sup>(1)</sup></b>					
Payables	447	-	-	-	447
Borrowings	297	-	-	-	297
Subordinated debt	9	36	214	-	259
Investment contract liabilities <sup>(2)</sup>	1,190	960	1,717	105	3,972
External unit holders liabilities	-	-	-	395	395
<b>Total undiscounted financial liabilities<sup>(3)</sup></b>	<b>1,943</b>	<b>996</b>	<b>1,931</b>	<b>500</b>	<b>5,370</b>
<b>2012</b>					
<b>Non-derivative financial liabilities<sup>(1)</sup></b>					
Payables	741	-	-	-	741
Borrowings	304	-	-	-	304
Subordinated debt	-	-	-	-	-
Investment contract liabilities <sup>(2)</sup>	1,573	1,063	1,654	88	4,378
External unit holders liabilities	-	-	-	539	539
<b>Total undiscounted financial liabilities<sup>(3)</sup></b>	<b>2,618</b>	<b>1,063</b>	<b>1,654</b>	<b>627</b>	<b>5,962</b>

#### Footnotes:

(1) The table provides maturity analysis of AMP Life financial liabilities including financial liabilities of controlled entities of the life entities' statutory funds and non-linked investment contracts including term annuities.

(2) Investment contract liabilities 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 16, are excluded from the above table.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

	Up to 1 Year or no term	1 to 5 Years	More than 5 Years	Other <sup>(2)</sup>	Total
Parent	\$m	\$m	\$m	\$m	\$m
<b>2013</b>					
<b>Non-derivative financial liabilities<sup>(1)</sup></b>					
Payables	701	-	-	-	701
Borrowings	337	-	-	-	337
Subordinated debt	9	36	214	-	259
Investment contract liabilities <sup>(2)</sup>	1,190	960	1,717	105	3,972
<b>Total undiscounted financial liabilities<sup>(3)</sup></b>	<b>2,237</b>	<b>996</b>	<b>1,931</b>	<b>105</b>	<b>5,269</b>
<b>2012</b>					
<b>Non-derivative financial liabilities<sup>(1)</sup></b>					
Payables	512	-	-	-	512
Borrowings	384	-	-	-	384
Subordinated debt	-	-	-	-	-
Investment contract liabilities <sup>(2)</sup>	1,573	1,063	1,654	88	4,378
<b>Total undiscounted financial liabilities<sup>(3)</sup></b>	<b>2,469</b>	<b>1,063</b>	<b>1,654</b>	<b>88</b>	<b>5,274</b>

**Footnotes:**

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

(2) Investment contract liabilities 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 16, are excluded from the above table.

**(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 Limited Audit Committee through monthly and quarterly FRM reports.

Credit risk management is decentralised in business units within the AMP group. However, credit risk directly and indirectly (i.e. in the participating business) impacting shareholder capital is measured and managed by AMP Group Treasury on a group basis, by aggregating risk from credit exposures taken in business units. 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 Limited Audit Committee through the monthly and quarterly FRM Report.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. 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.

	2013	2012
	\$m	\$m
AAA	3,535	2,529
AA- to AA+	4,371	8,686
A- to A+	1,901	2,165
BBB- to BBB+	1,672	847
BB+ and below	43	64
<b>Total financial assets with credit risk exposure managed by AMP Treasury</b>	<b>11,522</b>	<b>14,291</b>

#### (iii) 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:

	2013	2012
	\$m	\$m
Cumulative adjustment	11	20
Change during the period	(9)	(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.

#### (iv) 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.

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

AMP Life SF1 uses derivative financial instruments including financial futures, forward foreign exchange contracts, exchange traded and other options and forward rate agreements to hedge the impact of market movements on the value of assets in the investment portfolios, and to effect a change in the asset mix of investment portfolios.

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

##### (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) Master netting or similar agreements

##### (i) Derivative financial assets and liabilities

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not meet the criteria for offsetting in the Statement of financial position as AMP Life SF1 does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default.

As at 31 December 2013, for consolidations if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$357m would be reduced by \$44m to the net amount of \$313m and derivative liabilities of \$344m would be reduced by \$44m to the net amount of \$300m (31 December 2012: derivative assets of \$398m reduced by \$20m to the net amount of \$378m and derivative liabilities of \$158m reduced by \$20m to the net amount of \$138m).

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

As at 31 December 2013, for parent if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$299m would be reduced by \$40m to the net amount of \$259m and derivative liabilities of \$288m would be reduced by \$40m to the net amount of \$248m (31 December 2012: derivative assets of \$359m reduced by \$20m to the net amount of \$339m and derivative liabilities of \$114m reduced by \$20m to the net amount of \$94m).

#### (ii) Repurchase Agreements

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 entities' statutory funds. Collateral deposits held includes the obligation to repay collateral held in respect of debt security repurchase arrangements entered into. As at 31 December 2013, if repurchase arrangements were netted, debt securities of \$9,039m would be reduced by \$595m to the net amount of \$8,444m and collateral deposits held of \$595m would be reduced by \$595m to the net amount of nil (31 December 2012: debt securities of \$9,244m reduced by \$550m to the net amount of \$8,694m and collateral deposits held of \$550m reduced by \$550m to the net amount of nil).

#### (g) Other collateral

AMP Life SF1 has collateral arrangements in place with some counterparties in addition to collateral deposits held with respect to repurchase agreements. Collateral generally consists of 11am loans and deposits and is exchanged between the counterparties to reduce the exposure from the net fair value of derivative assets and liabilities between the counterparties. As at 31 December 2013 there was \$38m of collateral deposits due to other financial institutions (2012: \$10m) and \$23m of collateral loans due from other financial institutions relating to derivative assets and liabilities (2012: \$36m).

### 19. FAIR VALUE INFORMATION

AMP Life SF1's assets and liabilities 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 company's own data, reflecting the company'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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. FAIR VALUE INFORMATION (CONTINUED)

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

Consolidated 2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	4,844	-	624	5,468
Debt securities	-	9,033	56	9,089
Investments in unlisted managed investment schemes	-	6,073	41	6,114
Derivative financial assets	239	118	-	357
Other financial assets	-	-	-	-
Investment Property <sup>(1)</sup>	-	-	586	586
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>5,083</b>	<b>15,224</b>	<b>1,307</b>	<b>21,614</b>
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Borrowings	-	296	-	296
Collateral deposits held	595	-	-	595
Derivative financial liabilities	116	228	-	344
Investment contract liabilities	-	2,872	449	3,321
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>711</b>	<b>3,396</b>	<b>449</b>	<b>4,556</b>

2012	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets<sup>(2)</sup></b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	4,302	-	516	4,818
Debt securities	-	9,170	131	9,301
Investments in unlisted managed investment schemes	-	6,255	217	6,472
Derivative financial assets	146	252	-	398
Other financial assets	-	9	-	9
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>4,448</b>	<b>15,686</b>	<b>864</b>	<b>20,998</b>
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Borrowings	-	304	-	304
Collateral deposits held	549	-	-	549
Derivative financial liabilities	45	113	-	158
Investment contract liabilities	-	3,444	518	3,962
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>594</b>	<b>3,861</b>	<b>518</b>	<b>4,973</b>

Footnote:

(1) Refer to Note 9 Investment property for valuation techniques and key unobservable inputs.

(2) AASB 13 introduced fair value information disclosure requirements for non-financial assets and liabilities. Retrospective application was not required therefore comparatives have not been presented.



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. FAIR VALUE INFORMATION (CONTINUED)

Parent 2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	4,020	-	96	4,116
Debt securities	-	8,974	56	9,030
Investments in unlisted managed investment schemes	-	6,078	42	6,120
Investments in controlled entities	-	1,893	-	1,893
Derivative financial assets	205	94	-	299
Investment Property <sup>(1)</sup>	-	-	133	133
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>4,225</b>	<b>17,039</b>	<b>327</b>	<b>21,591</b>

<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Borrowings	-	337	-	337
Collateral deposits held	595	-	-	595
Derivative financial liabilities	113	175	-	288
Investment contract liabilities	-	2,872	449	3,321
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>709</b>	<b>3,384</b>	<b>449</b>	<b>4,542</b>

2012	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets<sup>(2)</sup></b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	3,823	-	125	3,948
Debt securities	-	9,125	119	9,244
Investments 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
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>3,968</b>	<b>16,884</b>	<b>396</b>	<b>21,248</b>

<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Borrowings	-	384	-	384
Collateral deposits held	549	-	-	549
Derivative financial liabilities	45	69	-	114
Investment contract liabilities	-	3,444	518	3,962
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>594</b>	<b>3,897</b>	<b>518</b>	<b>5,009</b>

Footnote:

(1) Refer to Note 9 Investment property for valuation techniques and key unobservable inputs.

(2) AASB 13 introduced fair value information disclosure requirements for non-financial assets and liabilities. Retrospective application was not required therefore comparatives have not been presented.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. FAIR VALUE INFORMATION (CONTINUED)

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

	Balance at the beginning of the year \$m	FX gains or losses <sup>(2)</sup> \$m	Total gains/ losses <sup>(2)(4)</sup> \$m	Purchases/ deposits \$m	Sales/ with- drawals \$m	Net transfers in/(out) <sup>(1)(3)</sup> \$m	Balance at the end of the year \$m	Total gains and losses on assets and liabilities held at reporting date \$m
<b>Consolidated 2013</b>								
<b>Assets classified as level 3<sup>(5)</sup></b>								
Equity securities and listed managed investment	516	-	16	1	(65)	156	624	16
Debt Securities	131	-	(27)	-	(37)	(11)	56	(27)
Investments in unlisted managed investment	217	-	34	2	(78)	(134)	41	34
<b>Total financial assets</b>	<b>864</b>	<b>-</b>	<b>23</b>	<b>3</b>	<b>(180)</b>	<b>11</b>	<b>721</b>	<b>23</b>
<b>Liabilities</b>								
Investment contract liabilities	518	13	20	2	(104)	-	449	20
<b>Total financial liabilities</b>	<b>518</b>	<b>13</b>	<b>20</b>	<b>2</b>	<b>(104)</b>	<b>-</b>	<b>449</b>	<b>20</b>
<b>2012</b>								
<b>Assets classified as level 3<sup>(5)</sup></b>								
Equity securities and listed managed investment	472	-	33	13	(2)	-	516	33
Debt Securities	183	-	(10)	1	(89)	46	131	(10)
Investments in unlisted managed investment	228	-	(11)	-	-	-	217	(11)
<b>Total financial assets</b>	<b>883</b>	<b>-</b>	<b>12</b>	<b>14</b>	<b>(91)</b>	<b>46</b>	<b>864</b>	<b>12</b>
<b>Liabilities</b>								
Investment contract liabilities	576	-	51	2	(115)	-	518	50
<b>Total financial liabilities</b>	<b>576</b>	<b>-</b>	<b>51</b>	<b>2</b>	<b>(115)</b>	<b>-</b>	<b>518</b>	<b>50</b>

Footnote:

(1) AMP Life recognises transfers as at the end of the reporting period during which the transfer has occurred. Transfers are recognised when there are changes in the observability of the pricing of the relevant securities.

(2) Gains and losses are classified in investment gains and losses or change in policyholder liabilities in the Statement of comprehensive income.

(3) Transfers out primarily relate to changes in the observability of pricing of AMP Life's investment in an unlisted managed investment scheme. There have been no significant transfers from Level 1 to Level 2 or vice versa.

(4) As at 31 December 2013, net unrealised gains and losses relating to financial assets was \$55m.

(5) Movements relating to investment property is disclosed in Note 9.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. FAIR VALUE INFORMATION (CONTINUED)

	Balance at				Sales/	Net	Balance at	Total gains and
	the beginning	FX gains	Total gains/	Purchases/	with-	transfers	the end of	losses on
Parent	of the year	or losses <sup>(2)</sup>	losses <sup>(2)(4)</sup>	deposits	drawals	in/(out) <sup>(1)(3)</sup>	the year	assets and
2013	\$m	\$m	\$m	\$m	\$m	\$m	\$m	liabilities held at
								reporting date
								\$m
<b>Assets classified as level 3<sup>(5)</sup></b>								
Equity securities and listed managed investment	125	-	(25)	1	(4)	-	96	(25)
Debt Securities	119	-	(26)	-	(37)	-	56	(26)
Investments in unlisted managed investment	152	-	(4)	2	-	(108)	42	(4)
<b>Total financial assets</b>	<b>396</b>	<b>-</b>	<b>(55)</b>	<b>3</b>	<b>(41)</b>	<b>(108)</b>	<b>194</b>	<b>(55)</b>
<b>Liabilities</b>								
Investment contract liabilities	518	13	20	2	(104)	-	449	20
<b>Total financial liabilities</b>	<b>518</b>	<b>13</b>	<b>20</b>	<b>2</b>	<b>(104)</b>	<b>-</b>	<b>449</b>	<b>20</b>
<b>2012</b>								
<b>Assets classified as level 3<sup>(5)</sup></b>								
Equity securities and listed managed investment	131	-	(17)	13	(2)	-	125	(17)
Debt Securities	151	-	(4)	1	(75)	46	119	(4)
Investments in unlisted managed investment	167	-	(15)	-	-	-	152	(15)
<b>Total financial assets</b>	<b>449</b>	<b>-</b>	<b>(36)</b>	<b>14</b>	<b>(77)</b>	<b>46</b>	<b>396</b>	<b>(36)</b>
<b>Liabilities</b>								
Investment contract liabilities	576	-	51	2	(115)	-	518	50
<b>Total financial liabilities</b>	<b>576</b>	<b>-</b>	<b>51</b>	<b>2</b>	<b>(115)</b>	<b>-</b>	<b>518</b>	<b>50</b>

#### Footnote:

(1) AMP Life recognises transfers as at the end of the reporting period during which the transfer has occurred. Transfers are recognised when there are changes in the observability of the pricing of the relevant securities.

(2) Gains and losses are classified in investment gains and losses or change in policyholder liabilities in the Statement of comprehensive income.

(3) Transfers out primarily relate to changes in the observability of pricing of AMP Life's investment in an unlisted managed investment scheme. There have been no significant transfers from Level 1 to Level 2 or vice versa.

(4) As at 31 December 2013, net unrealised gains and losses relating to financial assets was \$55m.

(5) Movements relating to investment property is disclosed in Note 9.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. FAIR VALUE INFORMATION (CONTINUED)

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

Consolidated 2013	Carrying amount <sup>(1)(2)</sup> \$m	Effect of reasonably possible alternative assumptions <sup>(3)</sup>		Voluntary Technique	Key Unobservable inputs
		(+) \$m	(-) \$m		
<b>Assets</b>					
Equity securities and listed managed investment schemes	624	42	(42)	Discounted cash flow approach utilising cost of equity as the discount rate.	Discount rate Terminal value growth rate Cash flow forecasts
Debt securities	56	-	-	Discounted cash flow approach	Discount rate Cash flow forecasts
Investments in unlisted managed investment schemes	41	-	-	Published redemption prices	Valuation of the unlisted managed investment schemes. Suspension of redemptions of the managed investment schemes
<b>Financial assets</b>	<b>721</b>	<b>42</b>	<b>(42)</b>		
<b>Liabilities</b>					
Investment contract liabilities <sup>(4)</sup>	449	6	(6)	Valuation model based on published unit prices and the fair value of backing assets	Fair value of financial instruments Cash flow forecasts Credit risk
<b>Financial liabilities</b>	<b>449</b>	<b>6</b>	<b>(6)</b>		

2012	Carrying amount \$m	Effect of reasonably possible alternative assumptions	
		(+) \$m	(-) \$m
<b>Assets</b>			
Equity securities and listed managed investment schemes	516	26	(26)
Debt securities	134	-	-
Investments in unlisted managed investment schemes	217	-	-
<b>Financial assets</b>	<b>867</b>	<b>26</b>	<b>(26)</b>
<b>Liabilities</b>			
Investment contract liabilities	518	6	(6)
<b>Financial liabilities</b>	<b>518</b>	<b>6</b>	<b>(6)</b>

Footnote:

(1) The fair value of the asset or liability would increase/decrease if the discount rate decreases/increases. The fair value of the asset or liability would increase/decrease if the other inputs increase/decrease.

(2) Each individual asset and industry profile will determine the appropriate valuation to be utilised in each specific valuation and can vary from asset to asset. The discount rate ranges for equity securities fall within (4.6% - 6.2%).

(3) Reasonably possible alternative assumptions have been calculated by changing one or more of significant unobservable inputs for individual assets to reasonably possible alternative assumptions. On financial assets this included adjusting discount rate by 25bps-100bps. On investment contract liabilities this included adjustments to credit risk by 50bps.

(4) Backing financial instruments include level 3 assets.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. FAIR VALUE INFORMATION (CONTINUED)

Parent 2013	Carrying amount <sup>(1)(2)</sup> \$m	Effect of reasonably possible alternative assumptions <sup>(3)</sup>		Voluntary Technique	Key Unobservable inputs
		(+) \$m	(-) \$m		
<b>Assets</b>					
Equity securities and listed managed investment schemes	96	3	(3)	Discounted cash flow approach utilising cost of equity as the discount rate.	Discount rate Terminal value growth rate Cash flow forecasts
Debt securities	56	-	-	Discounted cash flow approach	Discount rate Cash flow forecasts
Investments in unlisted managed investment schemes	42	-	-	Published redemption prices	Valuation of the unlisted managed investment schemes. Suspension of redemptions of the managed investment schemes
<b>Financial assets</b>	<b>194</b>	<b>3</b>	<b>(3)</b>		
<b>Liabilities</b>					
Investment contract liabilities <sup>(4)</sup>	449	6	(6)	Valuation model based on published unit prices and the fair value of backing assets	Fair value of financial instruments Cash flow forecasts Credit risk
<b>Financial liabilities</b>	<b>449</b>	<b>6</b>	<b>(6)</b>		

2012	Carrying amount \$m	Effect of reasonably possible alternative assumptions	
		(+) \$m	(-) \$m
<b>Assets</b>			
Equity securities and listed managed investment schemes	125	7	(7)
Debt securities	119	-	-
Investments in unlisted managed investment schemes	152	-	-
<b>Financial assets</b>	<b>396</b>	<b>7</b>	<b>(7)</b>
<b>Liabilities</b>			
Investment contract liabilities	518	6	(6)
<b>Financial liabilities</b>	<b>518</b>	<b>6</b>	<b>(6)</b>

Footnote:

(1) The fair value of the asset or liability would increase/decrease if the discount rate decreases/increases. The fair value of the asset or liability would increase/decrease if the other inputs increase/decrease.

(2) Each individual asset and industry profile will determine the appropriate valuation to be utilised in each specific valuation and can vary from asset to asset. The discount rate ranges for equity securities fall within (14.6% - 16.2%).

(3) Reasonably possible alternative assumptions have been calculated by changing one or more of significant unobservable inputs for individual assets to reasonably possible alternative assumptions. On financial assets this included adjusting discount rate by 25bps-100bps. On investment contract liabilities this included adjustments to credit risk by 50bps.

(4) Backing financial instruments include level 3 assets.

#### Financial asset valuation process

For financial assets categorised within Level 3 of the fair value hierarchy, the valuation processes applied in valuing such assets is governed by the AMP Capital Asset Valuation Policy. This policy outlines the asset valuation methodologies and processes applied to measure non-exchange traded assets which have no regular market price, including investment property, infrastructure, private equity, alternative assets, and Illiquid Debt Securities. All significant Level 3 assets are referred to the appropriate valuation committee who meet at least every 6 months, or more frequently if required.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 20. CAPITAL MANAGEMENT

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

AMP Life and its subsidiaries assess the adequacy of its capital requirements against regulatory capital requirements. AMP Life is an operating entity within the AMP group and is an APRA regulated company. Controlled entities of AMP Life also include an APRA regulated approved superannuation trustee (RSE) and companies that hold Australian Financial Services Licences (AFSL).

The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process. In addition to managing the level of capital resources, the AMP group also aims to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

The Minimum Regulatory Capital Requirement (MRR) is the amount of shareholder capital required by each of AMP's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirements are as follows:

- AMP Life – Capital adequacy requirements as specified under the Life Act and APRA Life Insurance Prudential Standards. This applies to the company as a whole, and each statutory fund of the company.
- Controlled entities of AMP Life that hold an AFSL and RSE license – capital and liquidity requirements under the appropriate AFSL and APRA Superannuation Prudential Standards.

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 Life has a Board approved minimum capital target above APRA requirements, with additional capital targets held above this amount. The capital target above the Board minimum has been set to a less than 10% probability of capital resources falling below the Board minimum over a 12 month period. In addition, the participating business of the life insurance companies is managed to target a very high level of confidence that the business is self-supporting and that there are sufficient assets to support policyholder liabilities.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 21. NOTES TO STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>(a) Reconciliation of the net profit after income tax to cash flows from operating activities</b>				
Net profit for the year	278	330	278	330
Depreciation of operating assets	7	9	7	9
Investment gains and losses - realised and unrealised	(183)	(658)	(302)	(859)
Dividend and distribution income reinvested	(138)	(248)	(138)	(248)
Decrease / (increase) in receivables and other assets	(28)	(343)	(313)	(50)
Increase / (decrease) in net policy liabilities	(710)	921	(710)	921
Increase / (decrease) in income tax balances	(92)	62	(93)	63
Increase in other payables	(420)	484	210	14
<b>Cash flows from (used in) operating activities</b>	<b>(1,286)</b>	<b>557</b>	<b>(1,061)</b>	<b>180</b>

	Consolidated		Parent	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
<b>(b) Reconciliation of cash</b>				
Cash and Cash equivalents	3,112	3,945	3,028	3,712
Short term bills and notes (included in debt securities)	2,215	871	2,215	871
<b>Balance at the end of the period</b>	<b>5,327</b>	<b>4,816</b>	<b>5,243</b>	<b>4,583</b>



# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 22. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	Footnote	% Holdings	
				2013	2012
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	1	-	100
AMP Capital Investments No. 14 Limited	New Zealand	Ord A & B		100	100
AMP CMB No.1 Pty Limited	Australia	Ord		100	100
AMP CMB No.2 Pty Limited	Australia	Ord		100	100
AMPERGO 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
Kent Street Pty Limited	Australia	Ord		100	100
Mowla Pty Limited	Australia	Ord		67	67
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
Principle Healthcare Holding 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 2013.

Details of significant investments in controlled trusts are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings	
			2013	2012
Aged Care Investment Trust No. 1	Australia	1	81	25
Aged Care Investment Trust No. 2	Australia	1	81	25
AMP Capital Asian Equity Growth Fund	Australia		72	73
AMP Capital Investors Australian Equity Long Short Fund	Australia		100	100
AMP Capital Credit Strategies Fund	Australia	2	-	93
AMP Capital Macro Strategies Fund	Australia		84	84
Australia Pacific Airports Fund	Australia		77	66
AMP Capital Asia Local Currency Bond Fund	Australia		100	100
AMP Capital Australian Equity Income Fund	Australia		100	100
AMP Capital Investors Infrastructure Fund 1	Australia		100	53
AMP Capital Global Equities Sector Rotation Fund	Australia		100	100
AMP Capital Global Resource Fund	Australia		100	100
AMP UK Shopping Centre Fund	Australia		100	100
AHGI Martineau Fund	Australia		100	100
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
The Glendenning Trust	Australia		100	100
Global Credit Strategies Fund	Australia		87	87
Floating Rate Income Fund	Australia		91	77

Footnote:

(1) Controlling interest acquired during 2013.

(2) Controlling interest was disposed of in 2013.



## AMP Life Limited Statutory Fund No.1 Financial Report

### Notes to financial statements

for the year ended 31 December 2013

#### 23. ASSOCIATES

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

COMPANIES <sup>(2)</sup>	PRINCIPAL ACTIVITY	Ownership interest		Carrying amount	
		2013 %	2012 %	2013 \$m	2012 \$m
TOA Pty Limited CTG	Investment Company	50	50	164	164
Gove Aluminum Finance Limited	Investment into aluminum smelter Tomago, NSW	20	20	54	79
AMP Pencarrow Private Capital <sup>(4)</sup>	Investment Company	-	34	-	3
<b>Total Parent</b>				<b>218</b>	<b>246</b>

#### UNIT TRUSTS<sup>(2)</sup>

##### NAME OF TRUST

AMP Capital Credit Strategies Fund	Investment Trust	44	-	108	-
AMP Capital Global Shares Fund	Investment Trust	27	27	38	32
AMP Capital Shopping Centre Fund	Investment Trust	24	25	490	474
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Investment Trust	26	26	297	304
AMPCI Strategic Infrastructure Fund 1 <sup>(4)</sup>	Investment Trust	-	23	-	44
AMPCI Strategic Infrastructure Fund 2 <sup>(4)</sup>	Investment Trust	-	23	-	45
AMP Life Cash Management Trust	Investment Trust	45	45	858	1,164
Managed Treasury Fund <sup>(4)</sup>	Investment Trust	-	18	-	488
Aged Care Investment Trust No. 1 <sup>(3)</sup>	Investment Trust	-	25	-	40
Aged Care Investment Trust No. 2 <sup>(3)</sup>	Investment Trust	-	25	-	40
Others (less than \$30m)	Investment Trust	various	various	25	27

Footnote:

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

(2) The balance date for all significant associated entities is 31 December. 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 an affiliate at 31 December 2012 and has now become a controlled entity.

(4) The investment holding has fallen below 20% as at 31 December 2013.

#### 24. 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 for performance obligations to controlled entities of AMP Life SF1.

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.

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

Catherine Brenner	Chairman, Non-Executive Director	
Craig Dunn	Executive Director	Resigned: 31 December 2013
Craig Meller	Executive Director	
Pauline Blight Johnston	Executive Director	Appointed: 1 March 2014
Anthony Coleman	Non-Executive Director	
Diana Elert	Non-Executive Director	
John Palmer	Non-Executive Director	
Andrew Harmos	Non-Executive Director	Appointed: 10 August 2013
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 \$
2013	5,697,351	111,637	3,814,800	9,623,788
2012	5,613,295	103,037	3,376,000	9,092,332

#### Footnote:

The fees paid to non-executive directors of AMP Life are the fees for AMP Group.

#### (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 SF1 in 2013 (2012: 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 2013 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. (2013: \$390m, 2012: \$364m). Services purchased include product distribution, marketing, payroll, personnel, computing and accounting services.

The company receives financial planning services from AMP Financial Planning Pty Limited, Hillross Financial Services Limited and AMP Superannuation Limited, and is charged on commercial terms and conditions.

The company has amounts in deposits with AMP Bank Limited (2013: \$3,095m, 2012: \$3,680m).

# AMP Life Limited Statutory Fund No.1 Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 25. 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		Service, management and other fees paid to related parties		Amounts owed by related parties		Amounts owed to related parties	
			\$m		\$m		\$m		\$m
AMP Bank Limited	2013	-	-	-	-	3,095	-	-	-
	2012	-	-	-	-	3,680	-	-	-
AMP Bermuda Ltd	2013	-	-	-	-	-	-	59	-
	2012	-	-	-	-	-	-	59	-
AMP Capital Investors Limited	2013	3	46	-	-	-	-	29	-
	2012	8	49	-	-	-	-	28	-
AMP Financial Planning	2013	-	104	12	-	-	-	-	-
	2012	-	112	8	-	-	-	-	-
AMP Life Ltd Australia Shareholders Funds	2013	-	-	-	-	-	-	86	-
	2012	-	-	-	-	-	-	401	-
AMP Life (NZ) Investments Holdings Limited	2013	-	-	-	-	924	-	-	-
	2012	-	-	-	-	-	-	-	-
AMP Life (NZ) Investments Limited	2013	-	-	-	-	-	-	227	-
	2012	-	-	-	-	-	-	36	-
AMP Life (NZ) Investments Limited - IL Fund	2013	-	-	-	-	-	-	52	-
	2012	-	-	-	-	-	-	36	-
AMP Life (NZ) Investments Holdings Limited - IL Fund	2013	-	-	62	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-
AMP Life Ltd Australia Statutory Fund 2	2013	-	-	125	-	-	-	-	-
	2012	-	-	191	-	-	-	-	-
AMP Planner Register Company	2013	-	-	53	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-
AMP Services Limited	2013	-	354	-	-	-	-	11	-
	2012	-	328	-	-	-	-	-	-
TOA Pty Limited	2013	-	-	-	-	-	-	159	-
	2012	-	-	-	-	-	-	159	-

## AMP Life Limited Statutory Fund No.1 Financial Report

### Notes to financial statements

for the year ended 31 December 2013

#### 26. AUDITOR'S REMUNERATION

All auditors' remuneration payable to the auditors of AMP Life 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.

	2013 \$'000	2012 \$'000
<hr/>		
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	1,040
<hr/>		
Total amounts received or due and receivable by the auditors of AMP Life Limited	1,040	1,040
<hr/>		

#### 27. PARENT ENTITIES

The parent entity is AMP Financial Services Holdings Limited and the company's ultimate parent entity is AMP Limited.

#### 28. 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 that has significantly affected or may significantly affect the company's operations in future years, the results of those operations in future years or the company's state of affairs in future years, which is not already reflected in this report.



## **Appointed Actuary's Report for AMP Life Limited ("AMP Life") Statutory Fund No.1**

To the Directors of 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 2013 ("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 the policy liabilities of AMP Life and the regulatory capital requirements 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).
- c) Proper records have been kept by AMP Life from which its policy liabilities and regulatory capital requirements have been able to be properly determined.
- d) The apportionment of income and outgo used in preparing the AMP Life accounts at 31 December 2013, 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 regulatory capital requirements throughout the year ended 31 December 2013 in relation to Statutory Fund No. 1. Note that the APRA regulatory capital requirements are 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, 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.



Rocco Mangano FIAA  
Appointed Actuary, AMP Life Limited  
24 April 2014

## 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 statements of financial position as at 31 December 2013, and the statements of comprehensive income, statements of changes in equity and statements 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. 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 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.

Ernst & Young has provided tax compliance services to the New Zealand branch of the company. We have no other relationship with or interest in the New Zealand branch of the company.

### Independence

In conducting our audit we have complied with the independence requirements of the Australian professional accounting bodies.







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working world

## 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 2013 and their financial performance and cash flows for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

## Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under Section 9A (3) of the New Zealand Financial Reporting Act 1993. As a result, the financial report may not be suitable for another purpose.

A stylized signature of the Ernst &amp; Young firm, written in a cursive script.

Ernst & Young

A stylized signature of Tony Johnson, written in a cursive script.

Tony Johnson  
Partner  
Melbourne  
2 May 2014





# **AMP Life Limited**

ABN 84 079 300 379

**Directors' Report and Financial Report  
for the year ended  
31 December 2013**

# AMP LIFE LIMITED

ABN 84 079 300 379

## DIRECTORS' REPORT AND FINANCIAL REPORT 31 DECEMBER 2013

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Registered Office:  
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 2013

The directors of AMP Life Limited ('AMP Life' or 'the company') present their report on the company for the financial year ended 31 December 2013.

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 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	Executive Director	Resigned: 31 December 2013
Craig Meller	Executive Director	
Pauline Blight Johnston	Executive Director	Appointed: 1 March 2014
Anthony Coleman	Non-Executive Director	
Diana Eilert	Non-Executive Director	
John Palmer	Non-Executive Director	
Andrew Harnos	Non-Executive Director	Appointed: 10 August 2013
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 2013 was a profit after tax of \$510m (2012: \$532m).

### Dividends

Details of the dividends paid and dividends recommended or declared for payment but not paid are disclosed in Note 16 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 that has significantly affected or may significantly affect the company's operations in future years, the results of those operations in the future years or the company's state of affairs in the future years, which is not already reflected in this report.

### Likely developments

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

### Environmental regulation

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

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

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

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

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

# AMP Life Limited Financial Report

## Directors' Report

for the year ended 31 December 2013

### 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 and certain secretaries of the company. Each deed of indemnity and access provides that:

- these officers 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 these officer, to the extent permitted by law, against any liability incurred by the officer in his or her capacity as a director or secretary 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 2013.

### 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 otherwise.

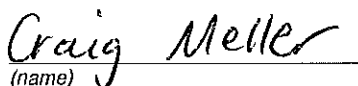
Signed in accordance with a resolution of the directors.



(signature)



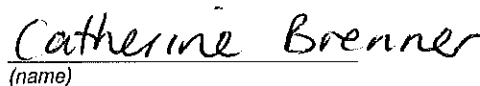
(signature)



(name)

Director

Sydney, 1 April 2014



(name)

Director

Sydney, 1 April 2014



Building a better  
working world

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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 2013, 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

Tony Johnson  
Partner  
1 April 2014

## AMP Life Limited Financial Report

### Statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 \$m	2012 \$m
<b>Income and expenses of policyholders and the shareholder<sup>(1)</sup></b>			
Life insurance premium and related revenue	13(a)	1,262	1,204
Fee revenue	3(a)	1,017	928
Other revenue	3(b)	3	4
Investment gains and (losses)	3(c)	10,857	8,582
Life insurance claims and related expenses	13(b)	(1,297)	(1,263)
Operating expenses	4(a)	(1,409)	(1,353)
Finance costs	4(b)	(18)	(33)
Change in policyholder liabilities			
- Life insurance contracts	13(e)	(201)	(557)
- Investment contracts		(9,044)	(6,318)
<b>Profit for the year before income tax</b>		<b>1,170</b>	<b>1,194</b>
Income tax expense <sup>(1)</sup>	5(a)	(660)	(662)
<b>Profit for the year</b>		<b>510</b>	<b>532</b>
<b>Other comprehensive income - items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations			
- exchange gains		69	17
<b>Total comprehensive income for the year</b>		<b>579</b>	<b>549</b>

**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.



# AMP Life Limited Financial Report

## Statement of financial position

as at 31 December 2013

	Note	2013 \$m	2012 \$m
<b>Assets</b>			
Cash and cash equivalents		3,060	3,702
Receivables	6	1,085	851
Current tax assets		145	84
Other assets	7	4	4
Investments in financial assets measured at fair value through profit or loss	8(a)	76,590	68,449
Investment property	9	1,479	1,420
Property, plant and equipment	10	26	23
Deferred tax assets	5(c)	518	511
Intangibles	11	517	517
Investments in controlled entities	8(b)	2,166	1,699
<b>Total assets of policyholders and the shareholder</b>		<b>85,590</b>	<b>77,260</b>
<b>Liabilities</b>			
Payables	12	1,112	830
Current tax liability		34	136
Provisions	13	1	2
Other financial liabilities	8(c)	949	674
Borrowings	14	558	567
Subordinated debt	15	215	-
Deferred tax liabilities	5(d)	1,559	861
Life insurance contract liabilities	13(d)	17,875	17,944
Investment contract liabilities		60,428	53,064
<b>Total liabilities of policyholders and the shareholder</b>		<b>82,731</b>	<b>74,078</b>
<b>Net assets of AMP Life Limited</b>		<b>2,859</b>	<b>3,182</b>
<b>Equity<sup>(1)</sup></b>			
Contributed equity	17	911	1,091
Reserves		37	(32)
Retained earnings		1,911	2,123
<b>Total equity of AMP Life Limited</b>		<b>2,859</b>	<b>3,182</b>

Footnote:

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

# AMP Life Limited Financial Report

## Statement of changes in equity

for the year ended 31 December 2013

	Contributed equity \$m	Foreign currency translation reserve \$m	Retained earnings \$m	Total equity \$m
<b>2013</b>				
Balance at the beginning of the year	1,091	(32)	2,123	3,182
Profit for the year	-	-	510	510
Other comprehensive income	-	69	-	69
Total comprehensive income	-	69	510	579
Dividends paid	-	-	(722)	(722)
Return of capital	(180)	-	-	(180)
<b>Balance at the end of the year</b>	<b>911</b>	<b>37</b>	<b>1,911</b>	<b>2,859</b>
<b>2012</b>				
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)
<b>Balance at the end of the year</b>	<b>1,091</b>	<b>(32)</b>	<b>2,123</b>	<b>3,182</b>

# AMP Life Limited Financial Report

## Statement of cash flows

for the year ended 31 December 2013

	Note	2013 \$m	2012 \$m
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		14,186	13,807
Interest and other items of a similar nature received		591	682
Dividends and distributions received		681	818
Cash payments in the course of operations		(16,218)	(14,971)
Finance costs		(18)	(34)
Income tax paid		(132)	(265)
<b>Cash flows (used in) / from operating activities</b>	23(a)	<b>(910)</b>	<b>37</b>
<b>Cash flows from investing activities</b>			
Net proceeds from sale of/(payments to acquire):			
- investment property		(59)	408
- investments in financial assets <sup>(1)</sup>		2,407	(131)
<b>Cash flows (used in) / from investing activities</b>		<b>2,348</b>	<b>277</b>
<b>Cash flows from financing activities</b>			
Proceeds / (payments) from borrowings		(9)	-
Net movement in deposits from customers		-	(6)
Proceeds from issue of subordinated debt		215	-
Capital return	17	(180)	-
Dividends paid	16	(722)	(560)
<b>Cash flows used in financing activities</b>		<b>(696)</b>	<b>(566)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>742</b>	<b>(252)</b>
Cash and cash equivalents at beginning of the year		4,597	4,849
<b>Cash and cash equivalents at the end of the year</b>	23(b)	<b>5,339</b>	<b>4,597</b>

**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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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 financial statements for the year ended 31 December 2013 were authorised for issue on 25 March 2014 in accordance with a resolution of the directors.

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 2013 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 Australian 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

The following Australian Accounting Standards and amendments have become mandatory for adoption from 1 January 2013, but have not had any material effect on the financial position or performance of AMP Life:

- Revised AASB 101 *Presentation of Financial Statements*. The changes introduced by the revised AASB 101 relate to presentation only, and have resulted in items in the Statement of comprehensive income being segregated between those that may eventually be realised in the Income statement in future periods and those that will not.
- AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, 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 have changed the criteria for determining which entities are to be accounted for using the equity method in preparing consolidated financial statements and the required disclosures in relation to consolidated entities, joint arrangements, joint operations, associates and structured entities.
- AASB 13 *Fair Value Measurement*. This standard has centralised the definition and guidance for measuring 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 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*. This standard has amended the disclosures in AASB 7 *Financial Instruments: Disclosures* to require information on the effect or potential effect of netting arrangements, including rights of set-off associated with the group's recognised financial assets and recognised financial liabilities.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*. These amendments have clarified the meaning of 'currently has a legally enforceable right to set off' and the application of AASB 132 *Financial Instruments: Presentation* offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous.
- AASB 2012-5 *Amendments Arising From the 2009-2011 Annual Improvements Project*. These amendments have clarified the disclosure requirements for segment assets and liabilities in interim financial statements to align reporting within interim financial statements to the requirements of AASB 8 *Operating Segments*.
- AASB 2012-10 *Amendments to Australian Accounting Standards – transition guidance and other amendments* makes various editorial amendments to a range of Australian Accounting Standards and amendments to AASB 10 and related Standards to revise the transition guidance for initial application of those Standards.
- AASB 2012-9 *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039* removes the requirement to apply *Interpretation 1039* relating to consideration of substantive enactment of major tax Bills in Australia.
- AASB 2013-2 *Amendments to AASB 1038 – Regulatory Capital*. This standard amends the life insurance capital disclosure requirements so as to align the terminology with that used in the Australian Prudential Regulatory Authority's revised capital requirements which applied from 1 January 2013.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### *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, other than set out below:

- **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. This standard also makes significant changes to hedge accounting requirements and disclosures. This standard is mandatory for adoption by AMP Life for the year ending 31 December 2017, however early application is permitted in certain circumstances. The financial impact to AMP Life of adopting AASB9 has not yet been quantified.
- **AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*** and additions to Corporations Regulations 2001 Regulation 2M.3.03. The revised amendments to AASB 124 remove individual key management personnel disclosures. The revised AASB 124 is mandatory for adoption by AMP Life in the year ending 31 December 2014. The changes to AASB 124 relate to presentation only and are not expected to have a financial impact on AMP Life.

#### **(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*

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.

#### **(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 designated as financial assets measured at fair value through profit or loss. Reinsurance and other recoveries are discounted to present value. Receivables that do not back investment contract and life insurance contract liabilities are measured at 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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. Transaction costs are expensed as incurred in profit or loss. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the Statement of comprehensive income in the period in which they arise.

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.
- There is no reduction for realisation costs in determining fair value.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 1(o).

##### *Investments in controlled entities*

Investments by the AMP Life Shareholder fund in controlled entities (excluding managed investment schemes) are measured at cost less any accumulated impairment losses.

#### (f) Investments in 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 than those backing investment contracts and life insurance contracts, are initially measured at cost plus any excess of the fair value of AMP Life's share of identifiable assets and liabilities above cost at acquisition date subsequently adjusted for AMP Life's share of post-acquisition profit or loss and movements in reserves net of any impairment. Any dividend or distribution received from associates is accounted for as a reduction in carrying value of the associate.

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

#### (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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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, investment property and 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 are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is recognised in the Statement of comprehensive income, measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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, the head entity (AMP Limited) 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 (transactions occurring after the implementation date only); 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 relevant tax authorities.

Assets and liabilities that arise as a result of balances transferred to/from entities within the tax-consolidated group to the head entity are recognised as related-party balances receivable and payable in the Statement of financial position of 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 contract liabilities and life insurance contract liabilities are established in Australia net, and in New Zealand gross, of the policyholders' share of any current tax payable and deferred tax balances of AMP Life.

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 are 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

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.

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.

#### **(n) Borrowings and subordinated debt**

All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value. In the case of borrowings and subordinated debt that are subsequently measured at amortised cost, initial fair value is calculated net of directly attributable transaction costs. For borrowings and subordinated debt that are subsequently measured at fair value through profit or loss, directly attributable transaction costs are expensed.

Borrowings and subordinated debt, are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

#### **(o) Derivative financial assets and derivative financial liabilities**

AMP Life is exposed to changes in interest and foreign exchange rates as well as movements in the fair value of investment guarantees it has issued in respect of its products. 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.

Derivatives held in AMP Life are not designated as hedging instruments. As such, changes in the fair value of derivative financial instruments are recognised in the Statement of comprehensive income in the period in which they arise.



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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 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 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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) Life Insurance 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 foreign operation is not the presentation currency, the transactions and balances of that operation are translated as follows:

- Income and expenses are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. In this case, income and expenses are translated at the dates of the transactions;
- Assets and liabilities are translated at the closing rate at the reporting date; 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 relating to that operation is recognised in the Statement of comprehensive income as part of the gain or loss on sale. If a portion of the operation is sold, the proportionate share of the cumulative amount is recognised.

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

##### *Life insurance contracts*

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

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

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### *Investment contracts*

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

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

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

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

Investment contracts consist of a financial instrument and an investment management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on 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 include realised gains and losses being the change in value between the previously reported value and the amount received on derecognition of the asset or liability and unrealised gains and losses being changes in the fair value of financial assets and investment property recognised in the period.

Rents raised are on terms in accordance with individual leases. 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 a liability to a 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, are expensed as incurred. See Note 1(q).

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, borrowings and subordinated debt; and
  - 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 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 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 21.

**(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 that 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 carried forward tax losses 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 26 provides information of contingent liabilities that management determined did not meet the criteria for recognition as provisions.

**(f) Life 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 life insurance contract liabilities is set out in Note 18.

**(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 detail on the determination of investment contract liabilities is set out in Note 21.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 3. REVENUE AND INVESTMENT INCOME

	2013 \$m	2012 \$m
<b>(a) Fee revenue</b>		
Investment contract fees	953	858
Investment management fees	18	24
Service fees		
- related entities	46	46
<b>Total fee revenue<sup>(1)</sup></b>	<b>1,017</b>	<b>928</b>
<b>(b) Other revenue</b>		
Other revenue	3	4
<b>Total other revenue</b>	<b>3</b>	<b>4</b>
<b>(c) Investment gains and (losses)</b>		
Interest <sup>(2)</sup>		
- related entities	130	156
- other entities	461	526
Dividends and distributions		
- related entities	1,716	1,730
- associated entities	127	183
- other entities	605	550
Rental income	128	161
Net realised and unrealised gains / (losses) <sup>(3)</sup>	7,677	5,247
Other investment income	13	29
<b>Total investment gains and (losses)</b>	<b>10,857</b>	<b>8,582</b>

**Footnote:**

(1) Total fee revenue includes fee income from trust and fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

(2) Interest includes interest income from financial assets measured at fair value through profit or loss, designated as such upon initial recognition.

(3) Net realised and unrealised gains and losses include net gains and losses on financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 4. EXPENSES

	2013 \$m	2012 \$m
<b>(a) Operating expenses</b>		
Commission and advisory fee-for-service expense	(376)	(353)
Investment management expenses		
- related entities	(217)	(203)
- other entities	(5)	(7)
<b>Fees and commission expenses<sup>(1)</sup></b>	<b>(598)</b>	<b>(563)</b>
Occupancy and property related expenses	3	8
Direct property expenses <sup>(2)</sup>	(39)	(52)
Service fee expense		
- related entities	(707)	(668)
Professional fees	(1)	(1)
Depreciation of property, plant and equipment	(7)	(9)
Other expenses	(60)	(68)
<b>Other operating expenses</b>	<b>(811)</b>	<b>(790)</b>
<b>Total operating expenses</b>	<b>(1,409)</b>	<b>(1,353)</b>
<b>(b) Finance costs</b>		
Interest expense on borrowings		
- other entities	(17)	(29)
Other finance costs	(1)	(4)
<b>Total finance costs</b>	<b>(18)</b>	<b>(33)</b>

**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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 5. INCOME TAX

	2013 \$m	2012 \$m
<b>(a) Analysis of income tax credit (expense)</b>		
Current tax (expense) credit	4	(177)
Increase (decrease) in deferred tax assets	9	(63)
(Increase) decrease in deferred tax liabilities	(667)	(430)
Over/(under) provided in previous years including amounts attributable to policyholders	(6)	8
<b>Income tax expense</b>	<b>(660)</b>	<b>(662)</b>

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

The following table provides a reconciliation of differences between prima facie tax calculated as 30 per cent of the profit before income tax for the year and the actual income tax expense recognised in the Statement of comprehensive income for the year. The income tax expense amount reflects the impact of both income tax attributable to the shareholder as well as income tax attributable to policyholders. In respect of income tax expense attributable to the shareholder, the tax rate is 30 per cent in Australia and 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 New Zealand life insurance business is taxed at 28 percent.

	2013 \$m	2012 \$m
Profit before income tax	1,170	1,194
Policyholder tax expense recognised as part of the change in policyholder liabilities in determining profit before income tax	(490)	(447)
<b>Profit before income tax excluding policyholder tax</b>	<b>680</b>	<b>747</b>
Prima facie tax at the rate of 30%	(204)	(224)
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	10	1
Non-deductible expenses	(2)	(1)
Non-taxable income	23	7
Tax offsets and credits	4	4
Other items	-	(5)
(Under)/over provided in previous years after excluding amounts attributable to policyholders	(1)	2
Differences in overseas tax rate	-	1
Income tax expense attributable to shareholders	(170)	(215)
Income tax expense attributable to policyholders	(490)	(447)
<b>Income tax expense per Statement of comprehensive income</b>	<b>(660)</b>	<b>(662)</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 5. INCOME TAX (CONTINUED)

	2013 \$m	2012 \$m
<b>(c) Analysis of deferred tax assets</b>		
Expenses deductible and income recognisable in future years	110	79
Unrealised investment losses	50	28
Losses available for offset against future taxable income	342	387
Other	16	17
<b>Total deferred tax assets</b>	<b>518</b>	<b>511</b>
<b>(d) Analysis of deferred tax liabilities</b>		
Unrealised investment gains	1,386	661
Deferred tax on New Zealand life insurance policy liabilities	151	128
Unrealised movements on borrowings and derivatives	-	35
Other	22	37
<b>Total deferred tax liabilities</b>	<b>1,559</b>	<b>861</b>

### 6. RECEIVABLES

	2013 \$m	2012 \$m
Investment income receivable	111	135
Investment sales and margin accounts receivable	428	298
Life insurance contract premiums receivable	269	270
Reinsurance and other recoveries receivable	13	10
Reinsurers' share of life insurance contract liabilities	96	119
Trade debtors	1	-
Other receivables		
- related entities	155	7
- other entities	12	12
<b>Total receivables<sup>(1)</sup></b>	<b>1,085</b>	<b>851</b>

Footnotes:

(1) \$47m (2012: \$81m) of total receivables is expected to be recovered more than 12 months from reporting date.

### 7. OTHER ASSETS

	2013 \$m	2012 \$m
Prepayments	4	4
<b>Total other assets<sup>(1)</sup></b>	<b>4</b>	<b>4</b>

Footnotes:

(1) \$nil (2012: \$nil) of other assets are expected to be recovered more than 12 months from reporting date.



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 8. INVESTMENTS IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	2013 \$m	2012 \$m
<b>(a) Investments in financial assets measured at fair value through profit or loss</b>		
Equity securities and listed managed investment schemes	11,531	11,117
Debt securities <sup>(1)</sup>	9,200	9,300
Investments in unlisted managed investment schemes	55,412	47,527
Derivative financial assets	308	366
Other financial assets <sup>(2)</sup>	139	139
<b>Total investments in financial assets measured at fair value through profit or loss</b>	<b>76,590</b>	<b>68,449</b>
<b>(b) Investments in controlled entities</b>		
At fair value	2,115	1,658
At cost	51	41
<b>Total investments in controlled entities</b>	<b>2,166</b>	<b>1,699</b>
<b>(c) Other financial liabilities</b>		
Derivative financial liabilities	354	126
Collateral deposits held <sup>(3)</sup>	595	548
<b>Total other financial liabilities</b>	<b>949</b>	<b>674</b>

**Footnote:**

(1) Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life statutory funds.

(2) Other financial assets primarily consists of policyholder investments in an external life insurance fund.

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

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 9. INVESTMENT PROPERTIES

	2013 \$m	2012 \$m
<b>Investment property<sup>(1)</sup></b>		
Directly held	1,479	1,420
<b>Total investment property</b>	<b>1,479</b>	<b>1,420</b>
<b>Movements in investment property</b>		
Balance at the beginning of the year	1,420	1,781
- subsequent expenditure recognised in carrying amount	13	10
Disposals	-	(418)
Net gains from fair value adjustments	46	47
<b>Balance at the end of the year</b>	<b>1,479</b>	<b>1,420</b>

Footnotes:

(1) Investment property is measured at fair value with changes in value recognised through profit or loss.

#### Valuation of investment property

Investment property is measured at fair value at each reporting date. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

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 that 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.

Refer to note 21 Fair value information for details regarding fair value measurement.

	2013	2012
<b>Primary assumptions used in valuing investment property</b>		
Capitalisation rates <sup>(1)</sup>	5.75% - 10.00%	6.00% - 10.75%
Market determined, risk adjusted discount rate <sup>(2)</sup>	8.50% - 11.00%	8.75% - 11.50%

Footnotes:

(1) The fair value of investment properties would increase/decrease if the capitalisation rate was lower/higher.

(2) The fair value of investment properties would increase/decrease if the risk adjusted discount rate was lower/higher.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 10. PROPERTY, PLANT AND EQUIPMENT

2013	Leasehold Improvements \$m	Plant & Equipment \$m	Total \$m
<b>Property, plant and equipment</b>			
Gross carrying amount	71	76	147
Less: accumulated depreciation and impairment losses	(60)	(61)	(121)
<b>Property, plant and equipment at written down value</b>	<b>11</b>	<b>15</b>	<b>26</b>

#### Movements in property, plant and equipment

Balance at the beginning of the year	10	13	23
Additions			
- through direct acquisitions	2	10	12
Disposals	-	(2)	(2)
Depreciation expense for the year	(1)	(6)	(7)
<b>Balance at the end of the year</b>	<b>11</b>	<b>15</b>	<b>26</b>

2012	Leasehold Improvements \$m	Plant & Equipment \$m	Total \$m
<b>Property, plant and equipment</b>			
Gross carrying amount	69	71	140
Less: accumulated depreciation and impairment losses	(59)	(58)	(117)
<b>Property, plant and equipment at written down value</b>	<b>10</b>	<b>13</b>	<b>23</b>

#### 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)
<b>Balance at the end of the year</b>	<b>10</b>	<b>13</b>	<b>23</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 11. INTANGIBLES

	2013	2012
	\$m	\$m
<b>Intangibles</b>		
Gross carrying amount	517	517
Less: accumulated amortisation and / or impairment losses	-	-
<b>Intangibles at written down value</b>	<b>517</b>	<b>517</b>

#### Impairment testing of goodwill

Goodwill of \$517m (2012: \$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 Wealth Management (WM), Australian Wealth Protection (WP) 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 of disposal basis. For each cash generating unit, the fair value has been determined considering a combination of the estimated embedded value plus the value of one year's new business times a multiplier. These are generally regarded as features of a Life insurance business that, when 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 and value of one year's new business 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. Premium and claim amounts are estimated over the expected life of the in-force policies which varies depending on the nature of the product. Future maintenance and investment expenses are estimated based on unit costs derived from budgeted amounts for the following year and increased in future years for expected rates of inflation. Assumptions applied in this valuation are consistent with the best estimate assumptions used in calculating the policy liabilities except that the value of in-force and new business calculation includes a risk discount rate. Note 1(q) and Note 18 provide extensive details with respect to the assumptions, management's approach to determining the values assigned to each key assumption and their consistency with past experience and external sources of information. All relevant business is projected for the embedded value and the description of the assumptions in Note 18 applies even where that business is not valued by projection methods for profit reporting. The value of in-force and new business calculation uses a risk discount rate based on the zero coupon government bond curve plus a discount margin of 4 per cent (2012: 3 per cent): Australia 6.5–9.5 per cent (2012: 6.3 per cent), New Zealand 7.2–9.4 per cent (2012: 6.6 per cent).

The conclusion from the goodwill impairment testing is that there has been no impairment to the amount of the goodwill recognised and there is no reasonably possible change in key assumptions that could cause the carrying amount to exceed the recoverable amount.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 12. PAYABLES

	2013 \$m	2012 \$m
<b>Payables</b>		
Investment purchases and margin accounts payable	26	53
Life insurance and investment contracts in process of settlement	242	206
Accrued expenses	18	21
Interest payable		
- other entities	1	1
Other payables		
- related entities	445	83
- other entities	380	466
<b>Total payables<sup>(1)</sup></b>	<b>1,112</b>	<b>830</b>

Footnote:

(1) \$nil (2012: \$nil) of payables are expected to be settled more than 12 months from reporting date.

### 13. PROVISIONS

	2013 \$m	2012 \$m
<b>Provisions</b>		
Systems and other project expenditures	1	2
<b>Total provisions<sup>(1)</sup></b>	<b>1</b>	<b>2</b>

	2013 \$m	2012 \$m
<b>Movements in provisions</b>		
Balance at the beginning of the year	2	1
Additional provisions made during the year	-	9
Unused amounts reversed during the year	-	(1)
Provisions used during the year	(1)	(7)
<b>Balance at the end of the year</b>	<b>1</b>	<b>2</b>

Footnotes:

(1) \$nil (2012: \$nil) of provisions are expected to be settled more than 12 months from reporting date.

### 14. BORROWINGS

	2013 \$m	2012 \$m
<b>Borrowings</b>		
Deposits		
- other entities	111	121
Other borrowings		
- related parties	447	446
<b>Total borrowings<sup>(1)</sup></b>	<b>558</b>	<b>567</b>

Footnote:

(1) \$nil (2012: \$nil) of borrowings are expected to be settled more than 12 months from reporting date.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 15. SUBORDINATED DEBT

	2013 \$m	2012 \$m
AMP Notes 2 (first call date 2018, maturity 2023) <sup>(1)</sup>	215	-
<b>Total subordinated debt<sup>(2)</sup></b>	<b>215</b>	<b>-</b>

**Footnote:**

(1) AMP Limited Floating Rate unsecured notes were issued on 18 December 2013 and are listed on the ASX. AMP Limited lent the proceeds of this transaction to AMP Life. In certain circumstances, AMP Limited may be required to convert some or all of AMP Notes 2 into AMP ordinary shares.

(2) \$215m of this balance is expected to be settled more than 12 months from the reporting date.

### 16. DIVIDENDS

	2013 \$m	2012 \$m
<b>Dividends paid during the year</b>		
Unfranked dividend of \$63.37 (31 December 2012: \$48.97) per ordinary share	(722)	(560)
<b>Total dividends paid</b>	<b>(722)</b>	<b>(560)</b>

### 17. 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.

	2013 \$m	2012 \$m
<b>Movements in contributed equity</b>		
Balance at the beginning of the year	1,091	1,091
11,393,668 (31 December 2012: 11,393,668) ordinary shares fully paid		
Return of capital <sup>(1)</sup>	(180)	-
<b>Total balance of contributed equity at the end of the year</b>	<b>911</b>	<b>1,091</b>

**Footnote:**

(1) As part of the subordinated debt transaction, \$180m of capital was returned to the sole shareholder.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS

	2013 \$m	2012 \$m
<b>(a) Analysis of life insurance contract premium and related revenue</b>		
Total life insurance contract premiums received and receivable	1,939	2,141
Less: component recognised as a change in life insurance contract liabilities	(717)	(981)
Life insurance contract premium revenue <sup>(1)</sup>	1,222	1,160
Reinsurance recoveries	40	44
<b>Total life insurance contract premium and related revenue</b>	<b>1,262</b>	<b>1,204</b>
<b>(b) Analysis of life insurance contract claims and related expenses</b>		
Total life insurance contract claims paid and payable	(2,450)	(2,243)
Less: component recognised as a change in life insurance contract liabilities	1,203	1,027
Life insurance contract claims expense	(1,247)	(1,216)
Outwards reinsurance expense	(50)	(47)
<b>Total life insurance contract claims and related expenses</b>	<b>(1,297)</b>	<b>(1,263)</b>
<b>(c) Analysis of life insurance contract operating expenses</b>		
Life insurance contract acquisition expenses		
- Commission	(40)	(53)
- Other expenses	(88)	(88)
Life insurance contract maintenance expenses		
- Commission	(101)	(97)
- Other expenses	(289)	(295)
Investment management expenses	(41)	(40)

Footnote:

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

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS (CONTINUED)

	2013 \$m	2012 \$m
<b>(d) Life insurance contract liabilities</b>		
<b>Life insurance contract liabilities determined using projection method</b>		
<i>Best estimate liability</i>		
- value of future life insurance contract benefits	11,565	12,701
- value of future expenses	2,885	3,184
- value of future premiums	(10,842)	(11,944)
<i>Value of future profits</i>		
- life insurance contract holder bonuses	2,241	1,874
- shareholders' profit margins	2,430	2,590
<b>Total life insurance contract liabilities determined using the projection method<sup>(1)</sup></b>	<b>8,279</b>	<b>8,405</b>
<b>Life insurance contract liabilities determined using the accumulation method</b>		
<i>Best estimate liability</i>		
- Value of future life insurance contract benefits	7,682	7,854
- Value of future acquisition expenses	(5)	(6)
<b>Total life insurance contract liabilities determined using the accumulation method</b>	<b>7,677</b>	<b>7,848</b>
Value of declared bonus	202	198
Unvested policyholder benefits liabilities <sup>(1)</sup>	1,621	1,374
<b>Total life insurance contract liabilities before reinsurance</b>	<b>17,779</b>	<b>17,825</b>
Add: Reinsurers' share of life insurance contract liabilities	96	119
<b>Total life insurance contract liabilities per the Statement of financial position</b>	<b>17,875</b>	<b>17,944</b>

**Footnote:**

(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.



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS (CONTINUED)

	Note	2013 \$m	2012 \$m
<b>(e) Reconciliation of changes in life insurance contract liabilities</b>			
Total life insurance contract liabilities at the beginning of the year		17,944	17,345
Change in life insurance contract liabilities recognised in the income statement		201	557
Premiums recognised as an increase in life insurance contract liabilities	13(a)	717	981
Claims recognised as a decrease in life insurance contract liabilities	13(b)	(1,203)	(1,027)
Change in reinsurers' share of life insurance contract liabilities		(23)	21
Foreign exchange adjustment		239	67
<b>Total life insurance contract liabilities at the end of the period</b>	<b>13(d)</b>	<b>17,875</b>	<b>17,944</b>

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

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to Note 1(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 protection - Australia)	Projection	Expected claims
Retail risk (income protection - New Zealand)	Projection	Expected premiums
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

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 <sup>(1)</sup>	31 December 2013		31 December 2012	
		Australia	New Zealand	Australia	New Zealand
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	2.5% - 5.5%	3.2% - 5.4%	2.6% - 4.4%	2.5% - 4.1%
Retail risk and group risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	2.7% - 5.7%	3.5% - 5.7%	2.9% - 4.7%	2.8% - 4.4%
Life annuities					
Non-CPI	Zero coupon government bond yield curve (including liquidity premium)	2.8% - 5.8%	3.6% - 5.7%	3.0% - 4.8%	2.9% - 4.5%
CPI	Commonwealth indexed bond yield curve (including liquidity premium)	1.2% - 2.6%	2.2% - 3.8%	0.8% - 1.8%	1.0% - 2.0%

#### Footnotes:

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

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. 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
<b>Australia</b>						
31 December 2013	4.3%	4.5%	3.5%	2.5%	0.6%	(0.5)%
31 December 2012	3.3%	4.5%	3.5%	2.5%	0.8%	(0.5)%
<b>New Zealand</b>						
31 December 2013	4.8%	4.5%	3.5%	2.5%	0.6%	(0.5)%
31 December 2012	3.6%	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.

Average asset mix	Equities	Property	Fixed Interest	Cash
<b>Australia</b>				
31 December 2013	29%	10%	40%	21%
31 December 2012	30%	11%	39%	20%
<b>New Zealand</b>				
31 December 2013	40%	17%	37%	6%
31 December 2012	40%	17%	37%	6%

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

#### (iii) Future participating benefits

For participating business, the total value of future bonuses (and the associated shareholder 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS (CONTINUED)

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

Typical supportable bonus rates on major product lines are as follows (31 December 2012 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	1.0% - 1.4% (0.4% - 0.9%)	1.4% - 2.1% (0.7% - 0.9%)
New Zealand	0.9% - 1.3% (0.4% - 0.7%)	0.9% - 1.3% (0.4% - 0.7%)

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

Crediting rates (investment account)	
Australia	2.4% - 6.7% (2.2% - 4.6%)
New Zealand	3.9% - 5.2% (2.9% - 3.1%)

#### (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 future 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 2013	2.6% CPI	3.0% Expense	2.5% CPI	3.0% Expense
31 December 2012	2.7% 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 is extremely diverse.

The assumptions for future rates of discontinuance for the major classes of life insurance contracts are shown in the following table. The table includes the short term voluntary discontinuance assumptions for Australian risk business.

Business type	31 December 2013		31 December 2012	
	Australia	New Zealand	Australia	New Zealand
Conventional	2.1% - 3.0%	1.1% - 1.9%	2.1% - 3.0%	1.3% - 2.5%
Retail risk (lump sum)*	12.1% - 17.7%	12.0% - 13.0%	11.9% - 14.6%	10.5% - 12.0%
Retail risk (income benefit)	9.1% - 21.5%	7.0% - 12.0%	8.0% - 20.0%	7.0% - 12.0%
Flexible Lifetime Super (FLS) risk business	10.2% - 20.0%	n/a	8.8% - 22.7%	n/a

\* Excludes a small mortgage insurance product for which rates are typically higher than other products

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. 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 experiences.

Rates of mortality assumed at 31 December 2013 are as follows:

- Conventional and New Zealand are unchanged from those assumed at 31 December 2012 in Australia and New Zealand. The rates are based on IA95-97 with an allowance for future Conventional mortality improvement.
- Annuitant mortality rates are unchanged from those assumed in December 2012
- Australian Retail Risk mortality rates have changed to be based on the new Industry standard IA04-08 Death Without Riders table modified based on our aggregated experience but with overall product specific adjustment factors.

For TPD and Trauma business the Australian Retail Risk product assumptions have been changed to use the latest industry table IA04-08 modified based on our aggregated experience but with overall product specific adjustment factors. No changes have been made to the New Zealand assumptions.

For Income Protection business the assumptions have been updated to use the IAD89-93 standard table modified for AMP Australia and New Zealand combined experience with overall product specific adjustment factors. The adjustment factors include age, gender, occupation, waiting period, duration on claim, benefit band and benefit period.

The assumptions are summarised in the following table:

Conventional	Conventional - % of IA95-97	
	Male	Female
Australia	67.5%	67.5%
New Zealand	73.0%	73.0%

Risk products	Retail Lump Sum - % of table	
	Male	Female
Australia <sup>(1)</sup>	86% - 118%	86% - 118%
New Zealand <sup>(2)</sup>	63.0%	63.0%

(1) Base IA04-08 Death Without Riders table modified based on our aggregated experience but with overall product specific adjustment factors

(2) Base IA95-97 Death Without Riders table modified based on our aggregated experience but with overall product specific adjustment factors

Annuitants <sup>(3)</sup>	Male - % of IML00*	Female - % of IFL00*
Australia and New Zealand	95%	80%

(3) Annuities tables modified for future mortality improvements

Typical morbidity assumptions, in aggregate, are as follows:

December 2013		Termination rates (ultimate) - % of IAD
Income protection	Incidence rates - % of IAD 89-93	89-93
Australia	24% - 138%	44% - 68%
New Zealand	45% - 67%	57% - 67%

Retail Lump Sum	Male % of IA04-08	Female % of IA04-08
Australia TPD <sup>(4)</sup>	140% - 155%	177% - 196%
Australia Trauma <sup>(5)</sup>	105% - 110%	105% - 121%

(4) Base IA04-08 TPD & Trauma tables modified based on our aggregated experience but with overall product specific adjustment factors

(5) Base IA04-08 Trauma table modified for modified based on our aggregated experience but with overall product specific adjustment factors

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS (CONTINUED)

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Actuaries Institute of Australia based on Australian insured lives experience from 1995–1997. The table has been modified to allow for future mortality improvement.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Actuaries Institute 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.
IA04-08 DTH	This was published by The Actuaries Institute under the name A graduation of the 2004-2008 Lump Sum Investigation Data. We refer to this table as IA04-08. The table contains separate graduations for Smoker, Non Smokers, Males and Females and Death With and Without Riders.
IA04-08 TPD	This is the TPD graduation published in the same paper as above.
IAD04-08 Trauma	This is the trauma graduation published in the same paper as above.
IAD 89-93	A disability table developed by Actuaries Institute of Australia based on the Australian disability income experience for the period 1989-1993. This table has been extensively modified based on our aggregate experience

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2012 to 31 December 2013 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 life		
	Change in future profit margins	Insurance contract liabilities	Change in shareholders' profit & equity
	\$m	\$m	\$m
Non-market related			
changes to discount rates	2	-	-
Mortality and morbidity	(52)	-	-
Discontinuance rates	(179)	-	-
Maintenance expenses	10	-	-
Other assumptions(1)	40	-	-

**Footnote:**

(1) Other assumption 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS (CONTINUED)

#### (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 for AMP Life, current shareholder period profit after income tax, and equity, to a number of possible changes in assumptions relating to insurance risk.

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
Mortality	10% increase in mortality rates	-	-	-	-
	50% increase in the rate of mortality improvement	-	-	-	-
Annuitant mortality	20% increase in lump sum disablement rates	-	-	-	-
Morbidity - lump sum disablement	10% increase in incidence rates	11	7	(8)	(5)
Morbidity - disability income	10% decrease in recovery rates	25	18	(17)	(13)
	10% increase in discontinuance rates	-	-	-	-
Discontinuance rates	10% increase in maintenance expenses	1	1	(1)	(1)
Maintenance expenses					

#### (h) Life insurance risk

The life insurance activities of AMP Life group 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 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 that 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; and
- provide protection against large losses.

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

#### Terms and conditions of life insurance contracts

The nature of the terms of the 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 following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance contracts issued by AMP Life depend.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 18. LIFE INSURANCE CONTRACTS (CONTINUED)

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability and yearly renewable)</i>	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of the Life Company. Premium rates for yearly renewable business are not guaranteed and may be changed at the Life Company's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of any underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum insured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	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.
<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance when due. 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 shareholders with not less than 80% allocated to policyholders. Distribution of policyholder profit is through an interest rate mechanism.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities, interest rates.

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

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

	Up to 1 year \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
2013	746	1,989	6,891	9,626
2012	784	2,022	6,590	9,396

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

	2013 \$m	2012 \$m
<b>(a) Analysis of life insurance and investment contract profit</b>		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	405	362
- Profits (losses) arising from difference between actual and assumed experience	(17)	95
- Profits (losses) arising from changes in assumptions	(5)	(73)
<b>Profit related to life insurance and investment contract liabilities</b>	<b>383</b>	<b>384</b>
Attributable to:		
- Life insurance contracts	224	262
- Investment contracts	159	122
<b>Investment earnings on assets in excess of life insurance and investment contract liabilities</b>	<b>64</b>	<b>90</b>

#### (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 (retail 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 19(d).



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

	2013 \$m	2012 \$m
<b>(c) Capital guarantees</b>		
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,216	13,530
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1,006	1,168
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	108	116

#### (d) Capital requirements

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. New prudential capital standards for Australian Life and General Insurance Companies (LAGIC) were introduced effective 1 January 2013. This LAGIC framework is intended to take account of the full range of risks to which a regulated institution is exposed and introduces the prescribed capital amount (PCA) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The regulatory capital base and prescribed capital amounts at 31 December 2013 have been calculated based on the new standards. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

In addition to the regulatory capital requirements, AMP Life maintains a target surplus providing additional capital buffer against adverse events. AMP Life uses internal capital models to determine its target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The excess of AMP Life's capital base over the prescribed capital amount required under LAGIC as at 31 December 2013 was \$864m.

Prior to 1 January 2013, AMP Life was required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. The purpose of the solvency requirement was to ensure, as far as practicable, that at any time the life company was able to meet all existing liabilities as they became due. The capital adequacy requirement was a separate requirement (usually greater), taking into account also viability as an ongoing concern. These were specified in the *Life Insurance Act 1995*, the previous *LPS 2.04 Solvency Standard* and *LPS 3.04 Capital Adequacy Standard*.

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded PCA at all times during 2013 and exceeded the previous capital adequacy and the solvency reserve required at all times during 2012.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

2013		No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Shareholders Funds \$m	Total \$m
<b>Capital base</b>						
Net assets as per Life Insurance Act		1,817	193	9	840	2,859
Total regulatory adjustments to net assets		(741)	(14)	(2)	(540)	(1,297)
Common equity Tier 1 Capital		1,076	179	7	300	1,562
Total regulatory adjustments to Tier 1 Capital		-	-	-	-	-
Tier 2 Capital		170	45	-	-	215
Total regulatory adjustments to Tier 2 Capital		-	-	-	-	-
<b>Total capital base</b>	<b>A</b>	<b>1,246</b>	<b>224</b>	<b>7</b>	<b>300</b>	<b>1,777</b>
<b>Prescribed capital</b>						
Insurance risk charge		-	-	-	-	-
Asset risk charge		396	40	-	14	450
Asset concentration risk charge		-	-	-	-	-
Operational risk charge		84	141	2	-	227
Less aggregation benefit		-	-	-	-	-
Combined stress scenario adjustment		231	-	-	5	236
<b>Total Prescribed Capital Amount (PCA)</b>	<b>B</b>	<b>711</b>	<b>181</b>	<b>2</b>	<b>19</b>	<b>913</b>
<b>Capital adequacy multiple</b>	<b>A/B</b>	<b>175%</b>	<b>124%</b>	<b>362%</b>	<b>1521%</b>	<b>194%</b>
<b>2012</b>						
		No 1 Statutory fund \$m	No 2 Statutory fund \$m	No 3 Statutory fund \$m	Total Statutory Funds \$m	
<b>Solvency requirement</b>						
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>B</b>	2,518	169	2	2,689	
<b>Total solvency requirement</b>	<b>A</b>	<b>24,611</b>	<b>50,177</b>	<b>635</b>	<b>75,423</b>	
<b>Assets available for solvency</b>						
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	
<b>Total assets available for solvency</b>	<b>C</b>	<b>3,895</b>	<b>218</b>	<b>8</b>	<b>4,121</b>	
Solvency Reserve %	<b>B/(A-B)*100</b>	<b>11.4%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>3.7%</b>	
Coverage of Solvency Reserve	<b>C/B</b>	<b>1.5</b>	<b>1.3</b>	<b>4.4</b>	<b>1.5</b>	

#### (e) Actuarial information

Mr Rocco Mangano (BA, FIA, FIAA), 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 18.

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 \$11,528m (2012: \$10,918m) of policy liabilities may be settled within 12 months of the reporting date.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (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.

#### (i) Income statement by statutory fund and shareholders' fund

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2013</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
Insurance premium and related revenue	1,262	-	-	-	1,262
Fee revenue	44	917	10	46	1,017
Other revenue	3	-	-	-	3
Investment gains and (losses)	1,383	9,339	101	34	10,857
Insurance claims and related expenses	(1,297)	-	-	-	(1,297)
Operating expenses	(641)	(759)	(7)	(2)	(1,409)
Finance costs	(18)	-	-	-	(18)
Change in policyholder liabilities					
- Life insurance contracts	(201)	-	-	-	(201)
- Investment contracts	(142)	(8,830)	(72)	-	(9,044)
<b>Profit / (loss) before income tax</b>	<b>393</b>	<b>667</b>	<b>32</b>	<b>78</b>	<b>1,170</b>
Income tax (expense) / credit	(115)	(504)	(26)	(15)	(660)
<b>Net profit for the year</b>	<b>278</b>	<b>163</b>	<b>6</b>	<b>63</b>	<b>510</b>

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2012</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
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)
<b>Profit before income tax</b>	<b>650</b>	<b>445</b>	<b>26</b>	<b>73</b>	<b>1,194</b>
Income tax (expense) / credit	(320)	(305)	(22)	(15)	(662)
<b>Net profit for the year</b>	<b>330</b>	<b>140</b>	<b>4</b>	<b>58</b>	<b>532</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (g) Disaggregated information (continued)

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Elimina- tions \$m	Total \$m
<b>2013</b>						
<b>Assets</b>						
Investments in financial assets measured at fair value through profit or loss	19,610	56,153	688	183	(44)	76,590
Investment property	133	1,346	-	-	-	1,479
Investments in controlled entities	1,893	219	3	51	-	2,166
Other assets	3,951	693	4	618	89	5,355
<b>Total assets of policyholders and the shareholder</b>	<b>25,587</b>	<b>58,411</b>	<b>695</b>	<b>852</b>	<b>45</b>	<b>85,590</b>
<b>Liabilities</b>						
Life insurance contract liabilities	17,875	-	-	-	-	17,875
Investment contract liabilities	3,321	56,487	620	-	-	60,428
Other liabilities	2,574	1,731	66	12	45	4,428
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,770</b>	<b>58,218</b>	<b>686</b>	<b>12</b>	<b>45</b>	<b>82,731</b>
<b>Net assets of AMP Life Limited</b>	<b>1,817</b>	<b>193</b>	<b>9</b>	<b>840</b>	<b>-</b>	<b>2,859</b>
<b>Equity</b>						
Contributed equity	158	173	-	580	-	911
Reserves	50	-	-	(13)	-	37
Retained earnings	1,609	20	9	273	-	1,911
<b>Total equity of AMP Life Limited</b>	<b>1,817</b>	<b>193</b>	<b>9</b>	<b>840</b>	<b>-</b>	<b>2,859</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (g) Disaggregated information (continued)

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Elimin- ations \$m	Total \$m
<b>2012</b>						
<b>Assets</b>						
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
<b>Total assets of policyholders and the shareholder</b>	<b>25,692</b>	<b>49,812</b>	<b>639</b>	<b>1,155</b>	<b>(38)</b>	<b>77,260</b>
<b>Liabilities</b>						
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
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,868</b>	<b>49,605</b>	<b>631</b>	<b>12</b>	<b>(38)</b>	<b>74,078</b>
<b>Net assets of AMP Life Limited</b>	<b>1,824</b>	<b>207</b>	<b>8</b>	<b>1,143</b>	<b>-</b>	<b>3,182</b>
<b>Equity</b>						
Contributed equity	303	208	-	580	-	1,091
Reserves	(18)	-	-	(14)	-	(32)
Retained earnings	1,539	(1)	8	577	-	2,123
<b>Total equity of AMP Life Limited</b>	<b>1,824</b>	<b>207</b>	<b>8</b>	<b>1,143</b>	<b>-</b>	<b>3,182</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (g) Disaggregated information (continued)

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2013</b>					
Opening retained earnings	1,539	(1)	8	577	2,123
Net profit	278	163	6	63	510
Transfers between statutory and shareholders' funds	(208)	(142)	(5)	355	-
Dividends paid	-	-	-	(722)	(722)
<b>Closing retained earnings</b>	<b>1,609</b>	<b>20</b>	<b>9</b>	<b>273</b>	<b>1,911</b>

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2012</b>					
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)
<b>Closing retained earnings</b>	<b>1,539</b>	<b>(1)</b>	<b>8</b>	<b>577</b>	<b>2,123</b>

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

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holders' Fund \$m	Total \$m
<b>2013</b>					
Opening contributed equity	303	208	-	580	1,091
Return of capital	(145)	(35)	-	-	(180)
<b>Closing contributed equity</b>	<b>158</b>	<b>173</b>	<b>-</b>	<b>580</b>	<b>911</b>

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

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (g) Disaggregated Information (continued)

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

	Non- Investment Linked \$m	Investment Linked \$m	Total Statutory Funds \$m	Share- holders' Fund \$m	Total \$m
<b>2013</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
Insurance premium and related revenue	1,262	-	1,262	-	1,262
Fee revenue	42	929	971	46	1,017
Other revenue	3	-	3	-	3
Investment gains and (losses)	1,368	9,455	10,823	34	10,857
Insurance claims and related expenses	(1,297)	-	(1,297)	-	(1,297)
Operating expenses	(640)	(767)	(1,407)	(2)	(1,409)
Finance costs	(18)	-	(18)	-	(18)
Change in policyholder liabilities					
- Life insurance contracts	(201)	-	(201)	-	(201)
- Investment contracts	(127)	(8,917)	(9,044)	-	(9,044)
<b>Profit / (loss) before income tax</b>	<b>392</b>	<b>700</b>	<b>1,092</b>	<b>78</b>	<b>1,170</b>
Income tax (expense) / credit	(114)	(531)	(645)	(15)	(660)
<b>Net profit for the year</b>	<b>278</b>	<b>169</b>	<b>447</b>	<b>63</b>	<b>510</b>

	Non- Investment Linked \$m	Investment Linked \$m	Total Statutory Funds \$m	Share- holders' Fund \$m	Total \$m
<b>2012</b>					
<b>Income and expenses of policyholders and the shareholder</b>					
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)
<b>Profit before income tax</b>	<b>648</b>	<b>473</b>	<b>1,121</b>	<b>73</b>	<b>1,194</b>
Income tax (expense) / credit	(318)	(329)	(647)	(15)	(662)
<b>Net profit for the year</b>	<b>330</b>	<b>144</b>	<b>474</b>	<b>58</b>	<b>532</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (g) Disaggregated information (continued)

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

	Non- Investment Linked	Investment Linked	Total Statutory Funds	Share- holders' Fund	Elim	Total
2013	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
Investments in financial assets measured at fair value through profit or loss	19,493	56,958	76,451	183	(44)	76,590
Investment property	133	1,346	1,479	-	-	1,479
Investments in controlled entities	1,796	319	2,115	51	-	2,166
Other assets	3,929	719	4,648	618	89	5,355
<b>Total assets of policyholders and the shareholder</b>	<b>25,351</b>	<b>59,342</b>	<b>84,693</b>	<b>852</b>	<b>45</b>	<b>85,590</b>
<b>Liabilities</b>						
Life insurance contract liabilities	17,875	-	17,875	-	-	17,875
Investment contract liabilities	3,216	57,212	60,428	-	-	60,428
Other liabilities	2,552	1,819	4,371	12	45	4,428
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,643</b>	<b>59,031</b>	<b>82,674</b>	<b>12</b>	<b>45</b>	<b>82,731</b>
<b>Net assets of AMP Life Limited</b>	<b>1,708</b>	<b>311</b>	<b>2,019</b>	<b>840</b>	<b>-</b>	<b>2,859</b>
<b>Equity</b>						
Contributed equity	158	173	331	580	-	911
Reserves	55	(5)	50	(13)	-	37
Retained earnings	1,495	143	1,638	273	-	1,911
<b>Total equity of AMP Life Limited</b>	<b>1,708</b>	<b>311</b>	<b>2,019</b>	<b>840</b>	<b>-</b>	<b>2,859</b>



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. 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)

	Non- Investment Linked	Investment Linked	Total Statutory Funds	Share- holders' Fund	Elim	Total
2012	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
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
<b>Total assets of policyholders and the shareholder</b>	<b>25,503</b>	<b>50,640</b>	<b>76,143</b>	<b>1,155</b>	<b>(38)</b>	<b>77,260</b>
<b>Liabilities</b>						
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
<b>Total liabilities of policyholders and the shareholder</b>	<b>23,679</b>	<b>50,425</b>	<b>74,104</b>	<b>12</b>	<b>(38)</b>	<b>74,078</b>
<b>Net assets of AMP Life Limited</b>	<b>1,824</b>	<b>215</b>	<b>2,039</b>	<b>1,143</b>	<b>-</b>	<b>3,182</b>
<b>Equity</b>						
Contributed equity	303	208	511	580	-	1,091
Reserves	(14)	(4)	(18)	(14)	-	(32)
Retained earnings	1,535	11	1,546	577	-	2,123
<b>Total equity of AMP Life Limited</b>	<b>1,824</b>	<b>215</b>	<b>2,039</b>	<b>1,143</b>	<b>-</b>	<b>3,182</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 19. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

#### (g) Disaggregated information (continued)

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

	Non-Investment Linked	Investment Linked	Total Statutory Funds	Shareholders' Fund	Total
2013	\$m	\$m	\$m	\$m	\$m
Opening retained earnings	1,535	11	1,546	577	2,123
Net profit	278	169	447	63	510
Transfers between statutory and shareholders' funds	(317)	(38)	(355)	355	-
Dividends paid	-	-	-	(722)	(722)
<b>Closing retained earnings</b>	<b>1,496</b>	<b>142</b>	<b>1,638</b>	<b>273</b>	<b>1,911</b>

	Non-Investment Linked	Investment Linked	Total Statutory Funds	Shareholders' Fund	Total
2012	\$m	\$m	\$m	\$m	\$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)
<b>Closing retained earnings</b>	<b>1,535</b>	<b>11</b>	<b>1,546</b>	<b>577</b>	<b>2,123</b>

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

	Non-Investment Linked	Investment Linked	Total Statutory Funds	Shareholders' Fund	Total
2013	\$m	\$m	\$m	\$m	\$m
Opening contributed equity	303	208	511	580	1,091
Return of capital	(145)	(35)	(180)	-	(180)
<b>Closing contributed equity</b>	<b>158</b>	<b>173</b>	<b>331</b>	<b>580</b>	<b>911</b>

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

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 20. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

#### Financial risk management

Financial risk management (FRM) in AMP Life is conducted as part of AMP group's enterprise risk management framework. The AMP Limited Audit Committee, supported by the Group Asset and Liability Committee (Group ALCO), is responsible for ensuring financial risks are appropriately managed.

#### (a) Risks and mitigation

Financial risks arising in AMP Life include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the Enterprise Risk Management Policy and individual policies for each risk category. This financial risk management includes 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.

Financial risk management includes decisions made about the allocation of investment assets across asset classes and/or markets and the management of risks within these asset classes. Financial risk for investments 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).

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 AMP Life arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, interest bearing investments and corporate debt.

#### (b) Market risk sensitivity analysis

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

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

#### (i) Interest rate risk

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

Interest rate risk arises from interest bearing financial assets and financial liabilities in various activities of the AMP group. Management of those risks is decentralised according to the activity. As discussed in note 1(b), AMP Life conducts its 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 shareholders arises in respect of financial assets and liabilities held in the shareholder fund and in the life statutory funds. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the life statutory funds to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (investment-linked business), there is no residual interest rate exposure which would impact shareholders.

Management of various risks associated with investments undertaken by life statutory funds and the life shareholder fund, such as interest rate risk, is subject to the relevant regulatory requirements governed by the *Life Act*. AMP Life is required to satisfy capital adequacy 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 capital as advised by the appointed actuary.

#### Interest rate risk sensitivity analysis

This analysis demonstrates the impact of a 100 basis point change in Australian and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that 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 group.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

Change in variables	2013		2012	
	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)
	\$m	\$m	\$m	\$m
+ 100 basis points	(34)	(34)	(49)	(49)
- 100 basis points	50	50	53	53

#### (ii) Currency risk

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

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

#### Currency risk sensitivity analysis

This analysis demonstrates the impact of a 10 per cent movement of currency rates against the Australian dollar, with all other variables held constant, on the profit after tax and equity due to changes in fair value of currency sensitive monetary assets and liabilities at the reporting date. It is assumed that the 10 per cent change occurs as at the reporting date. A sensitivity level of 10 per cent is determined considering the range of currency exposures in the AMP group.

Change in variables	2013		2012	
	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)
	\$m	\$m	\$m	\$m
10% depreciation of AUD	13	13	1	1
10% appreciation of AUD	(6)	(6)	(1)	(1)

#### (iii) Equity price risk

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

#### Equity price risk sensitivity analysis

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

Change in variables	2013		2012	
	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)
	\$m	\$m	\$m	\$m
10% increase in Australian equities	9	9	12	12
10% increase in International equities	13	13	9	9
10% decrease in Australian equities	(4)	(4)	(8)	(8)
10% decrease in International equities	(6)	(6)	(1)	(1)

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (c) Liquidity and refinancing risk

Liquidity risk is the risk that AMP Life is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk is the risk that AMP Life is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.

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

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

	Up to 1 Year or no term \$m	1 to 5 Years \$m	More than 5 Years \$m	Other <sup>(2)</sup> \$m	Total \$m
<b>2013</b>					
<b>Non-derivative financial liabilities<sup>(1)</sup></b>					
Payables	1,112	-	-	-	1,112
Borrowings	558	-	-	-	558
Subordinated debt	11	45	271	-	327
Investment contract liabilities <sup>(2)</sup>	1,190	960	1,717	57,212	61,079
<b>Total undiscounted financial liabilities<sup>(3)</sup></b>	<b>2,871</b>	<b>1,005</b>	<b>1,988</b>	<b>57,212</b>	<b>63,076</b>
<b>2012</b>					
<b>Non-derivative financial liabilities<sup>(1)</sup></b>					
Payables	829	1	-	-	830
Borrowings	567	-	-	-	567
Investment contract liabilities <sup>(2)</sup>	1,573	1,063	1,654	49,190	53,480
<b>Total undiscounted financial liabilities<sup>(3)</sup></b>	<b>2,969</b>	<b>1,064</b>	<b>1,654</b>	<b>49,190</b>	<b>54,877</b>

#### Footnotes:

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

(2) Investment contract liabilities of \$57,212m (2012: \$49,190m) 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 18 and are excluded from the above table.

#### (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 Limited Audit Committee through monthly and quarterly FRM reports.

Credit risk management is decentralised in business units within the AMP group. However, credit risk directly and indirectly (i.e. in the participating business) impacting shareholder capital is measured and managed by AMP Group Treasury on a group basis, by aggregating risk from credit exposures taken in business units. 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

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 Limited Audit Committee through the monthly and quarterly FRM Report.

#### (ii) Exposure to credit risk

The exposures on interest bearing securities and cash equivalents which impact the AMP Life'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.

	2013	2012
	\$m	\$m
AAA	3,624	2,543
AA- to AA+	4,826	8,881
A- to A+	2,052	2,220
BBB- to BBB+	1,732	877
BB+ and below	52	66
<b>Total financial assets with credit risk exposure managed by AMP Treasury</b>	<b>12,286</b>	<b>14,587</b>

#### (iii) 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:

	2013	2012
	\$m	\$m
Cumulative adjustment	11	20
Change during the period	(9)	(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.

#### (iv) 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.

#### (i) Derivative transactions undertaken by AMP life insurance entities 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.

#### (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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

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

#### (f) Master netting or similar agreements

##### (i) Derivative financial assets and liabilities

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not meet the criteria for offsetting in the Statement of financial position as AMP Life does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default.

As at 31 December 2013, if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$308m would be reduced by \$50m to the net amount of \$258m and derivative liabilities of \$354m would be reduced by \$50m to the net amount of \$304m (31 December 2012: derivative assets of \$366m reduced by \$23m to the net amount of \$343m and derivative liabilities of \$126m reduced by \$23m to the net amount of \$103m).

##### (ii) Repurchase Agreements

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 entities' statutory funds. Collateral deposits held includes the obligation to repay collateral held in respect of debt security repurchase arrangements entered into. As at 31 December 2013, if repurchase arrangements were netted, debt securities of \$9,200m would be reduced by \$595m to the net amount of \$8,605m and collateral deposits held of \$595m would be reduced by \$595m to the net amount of nil (31 December 2012: debt securities of \$9,300m reduced by \$548m to the net amount of \$8,752m and collateral deposits held of \$548m reduced by \$548m to the net amount of nil).

#### (g) Other collateral

AMP Life has collateral arrangements in place with some counterparties in addition to collateral deposits held with respect to repurchase agreements. Collateral generally consists of 11am loans and deposits and is exchanged between the counterparties to reduce the exposure from the net fair value of derivative assets and liabilities between the counterparties. As at 31 December 2013 there was \$38m of collateral deposits due to other financial institutions (2012: \$10m) and \$23m of collateral loans due from other financial institutions relating to derivative assets and liabilities (2012: \$46m).

### 21. FAIR VALUE INFORMATION

AMP Life's assets and liabilities 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 company's own data, reflecting the company'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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 21. FAIR VALUE INFORMATION (CONTINUED)

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

2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets</b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	11,377	-	154	11,531
Debt securities	-	9,144	56	9,200
Investments in unlisted managed investment schemes	-	55,337	75	55,412
Derivative financial assets	214	94	-	308
Other financial assets	-	139	-	139
Investments in controlled entities	-	2,115	-	2,115
Investment property <sup>(1)</sup>	-	-	1,479	1,479
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>11,591</b>	<b>66,829</b>	<b>1,764</b>	<b>80,184</b>
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Borrowings	-	558	-	558
Collateral deposits held	595	-	-	595
Derivative financial liabilities	139	215	-	354
Investment contract liabilities	-	2,872	57,556	60,428
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>734</b>	<b>3,645</b>	<b>57,556</b>	<b>61,935</b>
<hr/>				
2012	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>Assets<sup>(2)</sup></b>				
<b>Measured at fair value on a recurring basis</b>				
Equity securities and listed managed investment schemes	9,264	-	194	9,458
Debt securities	-	9,180	119	9,299
Investments in unlisted managed investment schemes	-	47,339	189	47,528
Derivative financial assets	152	214	-	366
Investments in controlled entities	-	1,658	-	1,658
Other financial assets	-	139	-	139
<b>Total financial assets measured at fair value on a recurring basis</b>	<b>9,416</b>	<b>58,530</b>	<b>502</b>	<b>68,449</b>
<b>Liabilities</b>				
<b>Measured at fair value on a recurring basis</b>				
Borrowings	-	567	-	567
Collateral deposits held	548	-	-	548
Derivative financial liabilities	46	80	-	126
Investment contract liabilities	-	3,443	49,621	53,064
<b>Total financial liabilities measured at fair value on a recurring basis</b>	<b>594</b>	<b>4,090</b>	<b>49,621</b>	<b>54,305</b>

Footnote:

(1) Refer to Note 9 Investment property for valuation techniques and key unobservable inputs.

(2) AASB 13 introduced fair value information disclosure requirements for non-financial assets and liabilities. Retrospective application was not required therefore comparatives have not been presented.



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 21. FAIR VALUE INFORMATION (CONTINUED)

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

	Balance at the beginning of the year	FX gains or losses <sup>(2)</sup>	Total gains/ (losses) <sup>(2),(4)</sup>	Purchases/ deposits	Sales/ (with- drawals)	Net transfers in/(out) <sup>(1),(3)</sup>	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
2013	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets classified as level 3<sup>(5)</sup></b>								
Equity securities and listed managed investment	194	-	(37)	2	(5)	-	154	(37)
Debt Securities	119	-	(26)	-	(37)	-	56	(26)
Investments in unlisted managed investment	189	-	(14)	5	(1)	(104)	75	(14)
<b>Total financial assets</b>	<b>502</b>	<b>-</b>	<b>(77)</b>	<b>7</b>	<b>(43)</b>	<b>(104)</b>	<b>285</b>	<b>(77)</b>
<b>Liabilities</b>								
Investment contract liabilities	49,621	12	8,010	9,128	(9,215)	-	57,556	7,565
<b>Total financial liabilities</b>	<b>49,621</b>	<b>12</b>	<b>8,010</b>	<b>9,128</b>	<b>(9,215)</b>	<b>-</b>	<b>57,556</b>	<b>7,565</b>
<b>2012</b>								
<b>Assets classified as level 3<sup>(5)</sup></b>								
Equity securities and listed managed investment	232	-	(36)	17	(19)	-	194	(36)
Debt Securities	151	-	(4)	1	(75)	46	119	(4)
Investments in unlisted managed investment	222	-	(33)	9	(9)	-	189	(33)
<b>Total financial assets</b>	<b>605</b>	<b>-</b>	<b>(73)</b>	<b>27</b>	<b>(103)</b>	<b>46</b>	<b>502</b>	<b>(73)</b>
<b>Liabilities</b>								
Investment contract liabilities	44,737	-	5,357	8,312	(8,785)	-	49,621	5,105
<b>Total financial liabilities</b>	<b>44,737</b>	<b>-</b>	<b>5,357</b>	<b>8,312</b>	<b>(8,785)</b>	<b>-</b>	<b>49,621</b>	<b>5,105</b>

**Footnote:**

(1) AMP Life recognises transfers as at the end of the reporting period during which the transfer has occurred. Transfers are recognised when there are changes in the observability of the pricing of the relevant securities.

(2) Gains and losses are classified in investment gains and losses or change in policyholder liabilities in the Statement of comprehensive income.

(3) Transfers out primarily relate to changes in the observability of pricing of AMP Life's investment in an unlisted managed investment scheme. There have been no significant transfers from Level 1 to Level 2 or vice versa.

(4) As at 31 December 2013, net unrealised losses relating to financial assets was \$75m.

(5) Movements relating to investment property are disclosed in Note 9.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 21. FAIR VALUE INFORMATION (CONTINUED)

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

2013	Carrying amount <sup>(1)(2)</sup> \$m	Effect of reasonably possible alternative assumptions <sup>(3)</sup>		Valuation Technique	Key Unobservable inputs
		(+) \$m	(-) \$m		
<b>Assets<sup>(5)</sup></b>					
Equity securities and listed managed investment schemes	154	4	(4)	Discounted cash flow approach utilising cost of equity as the discount rate.	Discount rate Terminal value growth rate Cash flow forecasts
Debt securities	56	-	-	Discounted cash flow approach	Discount rate Cash flow forecasts
Investments in unlisted managed investment schemes	75	-	-	Published redemption prices	Valuation of the unlisted managed investment schemes. Suspension of redemptions of the managed investment schemes
<b>Financial assets</b>	<b>285</b>	<b>4</b>	<b>(4)</b>		
<b>Liabilities</b>					
Investment contract liabilities <sup>(4)</sup>	57,556	6	(6)	Valuation model based on published unit prices and the fair value of backing assets	Fair value of financial instruments Cash flow forecasts Credit risk
<b>Financial liabilities</b>	<b>57,556</b>	<b>6</b>	<b>(6)</b>		

		Effect of reasonably possible alternative assumptions	
2012	Carrying amount \$m	(+) \$m	(-) \$m
<b>Assets<sup>(5)</sup></b>			
Equity securities and listed managed investment schemes	194	9	(9)
Debt securities	119	-	-
Investments in unlisted managed investment schemes	189	-	-
<b>Financial assets</b>	<b>502</b>	<b>9</b>	<b>(9)</b>
<b>Liabilities</b>			
Investment contract liabilities	49,621	6	(6)
<b>Financial liabilities</b>	<b>49,621</b>	<b>6</b>	<b>(6)</b>

Footnote:

(1) The fair value of the asset or liability would increase/decrease if the discount rate decreases/increases. The fair value of the asset or liability would increase/decrease if the other inputs increase/decrease.

(2) Each individual asset and industry profile will determine the appropriate valuation to be utilised in each specific valuation and can vary from asset to asset. The discount rate ranges for equity securities fall within (14.6% - 18.2%).

(3) Reasonably possible alternative assumptions have been calculated by changing one or more of significant unobservable inputs for individual assets to reasonably possible alternative assumptions. On financial assets this included adjusting discount rate by 25bps-100bps. On investment contract liabilities this included adjustments to credit risk by 50bps.

(4) Backing financial instruments include level 3 assets.

(5) Investment property information is disclosed in Note 9.

(6) AASB 13 introduced fair value information disclosure requirements for non-financial assets and liabilities. Retrospective application was not required therefore comparatives have not been presented.

#### Financial asset valuation process

For financial assets categorised within Level 3 of the fair value hierarchy, the valuation processes applied in valuing such assets is governed by the AMP Capital Asset Valuation Policy. This policy outlines the asset valuation methodologies and processes applied to measure non-exchange traded assets which have no regular market price, including investment property, infrastructure, private equity, alternative assets, and Illiquid Debt Securities. All significant Level 3 assets are referred to the appropriate valuation committee who meet at least every 6 months, or more frequently if required.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 22. CAPITAL MANAGEMENT

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

AMP Life and its subsidiaries assess the adequacy of its capital requirements against regulatory capital requirements. AMP Life is an operating entity within the AMP group and is an APRA regulated company. Controlled entities of AMP Life also include an APRA regulated approved superannuation trustee (RSE) and companies that hold Australian Financial Services Licences (AFSL).

The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process. In addition to managing the level of capital resources, the AMP group also aims to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

The Minimum Regulatory Capital Requirement (MRR) is the amount of shareholder capital required by each of AMP's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirements are as follows:

- AMP Life – Capital adequacy requirements as specified under the Life Act and APRA Life Insurance Prudential Standards. This applies to the company as a whole, and each statutory fund of the company.
- Controlled entities of AMP Life that hold an AFSL and RSE license – capital and liquidity requirements under the appropriate AFSL and APRA Superannuation Prudential Standards.

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 Life has a Board approved minimum capital target above APRA requirements, with additional capital targets held above this amount. The capital target above the Board minimum has been set to a less than 10% probability of capital resources falling below the Board minimum over a 12 month period. In addition, the participating business of the life insurance companies is managed to target a very high level of confidence that the business is self-supporting and that there are sufficient assets to support policyholder liabilities.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 23. NOTES TO STATEMENT OF CASH FLOWS

	2013 \$m	2012 \$m
<b>(a) Reconciliation of the net profit after income tax to cash flows from operating activities</b>		
Net profit for the year	510	532
Depreciation of operating assets	7	9
Investment gains and losses	(7,677)	(5,247)
Dividend and distribution income reinvested	(1,767)	(1,645)
Decrease / (increase) in receivables and other assets	(137)	36
Increase / (decrease) in net policy liabilities	7,295	5,864
Increase / (decrease) in income tax balances	528	397
Increase in other payables	331	91
<b>Cash flows from (used in) operating activities</b>	<b>(910)</b>	<b>37</b>
	2013 \$m	2012 \$m
<b>(b) Reconciliation of cash</b>		
Cash and cash equivalents	3,060	3,702
Short term bills and notes (included in debt securities)	2,279	895
<b>Balance at the end of the period</b>	<b>5,339</b>	<b>4,597</b>

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 24. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	Footnote	% Holdings	
				2013	2012
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	(1)	-	100
Abbey Capital Real Estate Pty Limited	Australia	Ord		100	100
ACIT Finance Pty Limited	Australia	Ord	(1)	-	100
ACN 155 075 040 Pty Ltd	Australia	Ord, Class A Pref		100	100
Aged Care Investment Services No. 1 Pty Limited (formerly PHF No. 1 Management Pty Limited)	Australia	Ord		100	100
Aged Care Investment Services No. 2 Pty Limited (formerly PHF No. 1 Pty Limited)	Australia	Ord		100	100
Allnarg Corporation Limited	NZ	Ord, Pref		100	100
AMP ASAL Pty Ltd	Australia	Ord			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	(1)	-	100
AMP Capital Investments No. 14 Limited	NZ	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 Finance Limited	Australia	Ord	(1)	-	100
AMP Financial Planning Pty Limited	Australia	Ord		100	100
AMP GBS Limited	Australia	Fixed	(1)	-	100
AMP Insurance Investment Holdings Pty Limited	Australia	Ord		100	100
AMPLife (NZ) Investments Holdings Limited	NZ	Ord		100	100
AMPLife (NZ) Investments Limited	NZ	Ord		100	100
AMP Personal Investment Services Limited	Australia	Ord	(1)	-	100
AMP Planner Register Company Pty Limited	Australia	Ord	(1)	-	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		100	100
AMP Remuneration Reward Plans Nominees Pty. Limited	Australia	Ord		100	100
AMP Services (NZ) Limited	NZ	Ord		100	100
AMP SMSF Holding Co Limited	Australia	Ord		100	100
AMP SMSF Investments Pty Limited	Australia	Ord		100	100
AMP Superannuation (NZ) Limited	NZ	Ord	(1)	-	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	(1)	-	100
Collins Place No. 2 Pty Ltd	Australia	Ord	(1)	-	100
Collins Place Pty Limited	Australia	Ord	(1)	-	100
Focus Property Services Pty Limited	Australia	Ord	(1)	-	92
Glendenning Pty Limited	Australia	Ord	(1)	-	100
Hilross Alliances Limited	Australia	Ord	(1)	-	100
Hilross Financial Services Limited	Australia	Ord		100	100
Hilross Innisfail Pty Limited	Australia	Ord	(1)	-	100
Hilross Wealth Management Centre Melbourne Pty Limited	Australia	Ord		100	100

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 24. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	INCORPORATION	Share type	Footnote	% Holdings	
				2013	2012
Honeysuckle 231 Pty Limited	Australia	Ord	(1)	-	60
INSSA Pty Limited	Australia	Ord		100	100
Jemine Pty Limited	Australia	Ord	(1)	-	51
Kent Street Pty Limited	Australia	Ord		100	100
Kiwi Kat Limited	NZ	Ord	(1)	-	70
Knox City Shopping Centre Investments (No. 2) Pty Limited	Australia	Ord		100	100
Mowla Pty. Limited	Australia	Ord		67	78
National Fire Holdings Pty Limited	Australia	Ord	(1)	-	51
One Group Retail Holdings Pty Limited	Australia	Ord	(1)	-	52
PHFT Finance Pty Limited	Australia	Ord	(1)	-	100
PremierOne Mortgage Advice Pty Limited	Australia	Ord	(1)	-	100
Principal Healthcare Finance No. 2 Pty Limited	Australia	Ord	(1)	-	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	(1)	-	100
Scrabster Bay Pty Limited	Australia	Ord	(1)	-	100
SPP No. 1 (Alexandra Canal) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Cowes) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (H) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Mona Vale) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Mornington) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (New castle) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (North Melbourne) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Pakenham) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Point Cook) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Q Stores) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Rosebery) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 Holdings Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Hawthorn) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Mt. Waverley Financing) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Mt. Waverley) Pty Limited	Australia	Ord	(1)	-	86
SPP No. 1 (Port Melbourne) Pty Limited	Australia	Ord	(1)	-	86
Sunshine West Development Pty Limited	Australia	Ord	(1)	-	75
The India Infrastructure Fund LLC	Mauritius	Red Pref	(1)	-	100
TOA Pty Ltd	Australia	Ord		100	100
United Equipment Holdings Pty Limited	Australia	Ord	(2)	-	56
Waterfront Place (No. 2) Pty. Ltd.	Australia	Ord	(1)	-	100
Waterfront Place (No. 3) Pty. Ltd.	Australia	Ord	(1)	-	100

Footnote:

(1) Controlling interest disposed in 2013.

(2) Not audited by Ernst & Young.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 24. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES		COUNTRY OF		% Holdings	
NAME OF ENTITY	REGISTRATION	Footnote	2013	2012	
140 St Georges Terrace Trust	Australia		100	100	
ACPP Holding Trust	Australia		100	100	
ACPP Industrial Trust	Australia	(2)	-	100	
ACPP Office Trust	Australia	(2)	-	100	
ACPP Retail Trust	Australia	(2)	-	100	
Active Quant Share Fund	Australia		75	75	
AFS Alternative Fund 1	Australia	(2)	-	100	
AFS Australian Share Fund 8	Australia		100	100	
AFS Extended Alpha Fund (formerly AMP Capital Sustainable Extended Alpha Fund)	Australia		100	100	
AFS International Fixed Interest Enhanced Index Fund	Australia	(1)	100	-	
Aged Care Investment Trust No.1	Australia	(1)	81	-	
Aged Care Investment Trust No.2	Australia	(1)	81	-	
AFS International Share Fund 1	Australia	(2)	-	100	
Aggressive Enhanced Index Fund	Australia		100	100	
AHGI Martineau Fund	Australia	(2)	-	100	
AHGI Martineau Galleries Fund	Australia		100	100	
AMP Capital 1950s Fund	Australia	(1)	100	-	
AMP Capital 1960s Fund	Australia	(1)	100	-	
AMP Capital 1970s Fund	Australia	(1)	100	-	
AMP Capital 1980s Fund	Australia	(1)	100	-	
AMP Capital 1990s Fund	Australia	(1)	100	-	
AMP Capital Absolute Return - Passive Fund	Australia	(1)	100	-	
AMP Capital Alternative Defensive Fund - Delayed Redemption	Australia	(2)	-	100	
AMP Capital Asia ex-Japan Fund	Australia		100	100	
AMP Capital Asia Local Currency Bond Fund	Australia		100	100	
AMP Capital Asian Equity Growth Fund	Australia		76	75	
AMP Capital Australian Equity Concentrated Fund	Australia	(1)	76	-	
AMP Capital Australian Equity Income Fund	Australia		100	100	
AMP Capital Australian Equity Opportunities Fund	Australia	(2)	-	81	
AMP Capital Corporate Bond Fund	Australia	(2)	-	76	
AMP Capital Credit Strategies Fund	Australia	(2)	-	91	
AMP Capital Direct Property Fund	Australia	(1)	100	-	
AMP Capital Diversified Balanced Fund	Australia	(1)	100	-	
AMP Capital Extended Multi-Asset Fund	Australia		69	71	
AMP Capital Global Equities Sector Rotation Fund	Australia		100	100	
AMP Capital Global Infrastructure Securities Fund (Hedged)	Australia	(2)	-	80	
AMP Capital Global Infrastructure Securities Fund (Unhedged)	Australia	(2)	-	80	
AMP Capital Global Resource Fund	Australia		100	100	
AMP Capital Australian Equity Long Short 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	(2)	-	73	
AMP Capital Shell Fund 1	Australia	(2)	-	65	
AMP Capital Shell Fund 2	Australia	(2)	-	100	
AMP Capital Shell Fund 3	Australia	(1)	100	-	
AMP Capital Stable Fund	Australia	(1)	100	-	
AMP Capital Sustainable Share Fund	Australia		69	68	
AMP Life Cash Management Trust	Australia		100	100	
AMP Private Capital Trust No.9	Australia		100	100	
AMP Capital Australian Small Companies Fund	Australia		55	54	

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 24. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES		COUNTRY OF		% Holdings	
NAME OF ENTITY	REGISTRATION	Footnote	2013	2012	
AMP Shareholder Fixed Interest Fund	Australia		51	100	
AMP UK Shopping Centre Fund	Australia		100	100	
AMP Capital Wholesale Office Fund	Australia	(2)	-	34	
AMPFI Infrastructure Trust	Australia	(2)	-	97	
Australian Pacific Airports Fund	Australia		77	66	
AWOF New Zealand Office Trust	New Zealand	(2)	-	34	
Balanced Enhanced Index Fund	Australia		100	100	
Booragoon Trust	Australia		100	100	
Bourke Place Unit Trust	Australia	(2)	-	25	
China Strategic Growth Fund	Australia		100	100	
Cautious Enhanced Index Fund	Australia		100	100	
Conservative Enhanced Index Fund	Australia		99	99	
Crossroads Trust	Australia	(2)	-	100	
Davidson Road Trust	Australia	(2)	-	100	
EFM Australian Share Fund 1	Australia		96	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		98	99	
EFM Australian Share Fund 7	Australia		98	98	
EFM Fixed Interest Fund 2	Australia		97	96	
EFM Fixed Interest Fund 3	Australia		95	95	
EFM Fixed Interest Fund 4	Australia		94	94	
EFM Infrastructure Fund 1	Australia		94	95	
EFM International Share Fund 3	Australia		97	97	
EFM International Share Fund 5	Australia		96	97	
EFM International Share Fund 7	Australia		92	91	
EFM Listed Property Fund 1	Australia		96	96	
Enhanced Index International Share Fund	Australia		57	81	
Enhanced Index Share Fund	Australia		60	89	
FD Australian Share Fund 1	Australia		96	97	
FD Australian Share Fund 3	Australia		95	93	
FD International Share Fund 1	Australia		96	95	
FD International Share Fund 3	Australia		98	99	
FD International Share Fund 4	Australia		96	96	
Floating Rate Income Fund	Australia		91	96	
Future Directions Australian Bond Fund	Australia	(2)	-	96	
Future Directions Asia ex Japan Fund	Australia	(2)	-	74	
Future Directions Australian Share Fund	Australia	(2)	-	93	
Future Directions Australian Small Companies Fund	Australia	(2)	-	90	
Future Directions Balanced Fund	Australia		98	98	
Future Directions Conservative Fund	Australia		95	95	
Future Directions Core International Share Fund 2	Australia	(2)	-	59	



# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 24. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Details of significant investments in controlled trusts are as follows:

NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings	
			2013	2012
Future Directions Credit Opportunities Fund	Australia	(2)	-	95
Future Directions Diversified Alternatives Fund	Australia	(2)	-	97
Future Directions Enhanced Index Australian Share Fund	Australia	(2)	-	97
Future Directions Enhanced Index Global Property Securities Fund	Australia	(2)	-	97
Future Directions Geared Australian Share Fund	Australia		93	93
Future Directions Global Credit Fund (formerly FD International Bond Fund 3)	Australia	(2)	-	95
Future Directions Global Government Bond Fund	Australia	(2)	-	92
Future Directions Growth Fund	Australia		97	97
Future Directions Hedged Core International Share Fund	Australia		61	61
Future Directions High Growth Fund	Australia		96	95
Future Directions Inflation Linked Bond Fund	Australia	(2)	-	95
Future Directions Infrastructure Fund	Australia	(2)	-	97
Future Directions International Bond Fund	Australia	(2)	-	95
Future Directions International Share Fund	Australia		60	58
Future Directions Moderately Conservative Fund	Australia		96	95
Future Directions Opportunistic Fund	Australia	(2)	-	97
Future Directions Private Equity Fund 1A	Australia	(2)	-	97
Future Directions Private Equity Fund 1B	Australia		100	100
Future Directions Private Equity Fund 2A	Australia	(2)	-	97
Future Directions Private Equity Fund 2B	Australia		100	100
Future Directions Private Equity Fund 3A	Australia	(2)	-	97
Future Directions Private Equity Fund 3B	Australia		100	100
Future Directions Property (Feeder) Fund	Australia	(2)	-	97
AMP Capital Alternative Defensive Fund (formerly Future Directions Total Return Fund)	Australia	(2)	-	98
Future Directors Emerging Markets Share Fund	Australia	(2)	-	52
Global Credit Strategies Fund	Australia		87	87
Global Growth Opportunities Fund	Australia		96	96
Global Listed Infrastructure Fund	Australia		100	100
International Bond Fund	Australia		93	93
ipac Diversified Investment Strategy No 2	Australia	(2)	-	63
ipac Diversified Investment Strategy No 4	Australia		52	69
Kent Street Investment Trust	Australia		100	100
Kent Street Unit Trust	Australia	(2)	-	100
Loftus Street Trust	Australia	(2)	-	36
Macquarie Balanced Growth Fund	Australia		84	83
Managed Treasury Fund	Australia		73	92
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

## AMP Life Limited Financial Report

### Notes to financial statements

for the year ended 31 December 2013

#### 24. 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	2013	2012
Private Equity Fund IIA	Australia		94	94
Private Equity Fund IIB	Australia		94	94
Responsible Investment Leaders Conservative Fund	Australia		92	95
Responsible Investment Leaders Growth Fund	Australia		97	97
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		100	99
Warringah Mall Trust	Australia	(2)	-	50
Wholesale Australian Bond Fund	Australia	-	89	90

**Footnotes:**

(1) Controlling interest acquired in 2013

(2) Controlling interest disposed of in 2013

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 25. ASSOCIATES

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

			Ownership interest		Carrying amount	
COMPANIES	PRINCIPAL		2013	2012	2013	2012
NAME OF COMPANY	ACTIVITY <sup>(3)</sup>		%	%	\$m	\$m
Gove Aluminium Finance	Investment into aluminium smelter Tomago,NSW		30%	30%	84	108
Asian Giant Infrastructure	Infrastructure investment		37%	37%	18	20
<b>Total investments held by the life statutory funds in associated companies</b>					<b>102</b>	<b>128</b>
<b>UNIT TRUSTS<sup>(2)</sup></b>						
NAME OF TRUST						
Aged Care Investment Trust No.1	Investment trusts	(4)	-	48%	-	73
Aged Care Investment Trust No.2	Investment trusts	(4)	-	48%	-	73
AMP Capital China Growth Fund	Investment trusts		37%	34%	110	79
AMP Capital Corporate Bond Fund	Investment trusts	(5)	21%	-	415	-
AMP Capital Credit Strategies Fund	Investment trusts	(5)	44%	-	108	-
AMP Capital Global Property Securities Fund	Investment trusts		37%	36%	513	466
AMP Capital Infrastructure Equity Fund (formally Infrastructure Equity Fund)	Investment trusts	(4)	-	31%	-	131
AMP Capital Multi-Asset Fund	Investment trusts	(5)	49%	-	94	-
AMP Capital Infrastructure Equity Fund (formally Infrastructure Equity Fund)	Investment trusts		26%	26%	297	304
AMP Capital Property Portfolio	Investment trusts	(5)	40%	-	291	-
AMP Capital Shares NZ Index Fund	Investment trusts	(5)	35%	-	87	-
AMP Capital Shopping Centre Fund	Investment trusts		31%	34%	644	632
AMP Capital Equity Fund	Investment trusts	(4)	-	42%	-	189
AMP Capital Strategic Infrastructure Trust of Europe No.1	Investment trusts	(5)	30%	-	90	-
AMP Capital Strategic Infrastructure Trust of Europe No.2	Investment trusts	(5)	30%	-	91	-
AMP Capital Strategic NZ Shares Fund	Investment trusts	(5)	38%	-	123	-
AMP Capital Wholesale Office Fund	Investment trusts	(5)	34%	-	777	-
AMP Shareholder Cash Fund	Investment trusts	(4)	-	24%	-	154
AMP Equity Trust	Investment trusts	(5)	42%	-	206	-
Diversified Investment Strategy No. 2	Investment trusts	(5)	38%	-	126	-
Future Directions Australian Share Fund	Investment trusts	(5)	22%	-	597	-
Future Directions International Small Companies Fund	Investment trusts		46%	39%	148	159
Future Directions Core International Share Fund 2	Investment trusts	(5)	41%	-	2,087	-
Future Directions International Bond Fund	Investment trusts	(5)	28%	-	547	-
Future Directions Property (Feeder) Fund	Investment trusts	(5)	49%	-	478	-
Future Directions Total Return Fund	Investment trusts	(5)	23%	-	179	-
Hyperion Australian Growth Companies Fund	Investment trusts	(5)	23%	-	57	-
K2 Australian Absolute Return Fund4	Investment trusts	(5)	22%	-	94	-
Listed Property Fund	Investment trusts		30%	31%	57	57
Pimco Diversified Fixed Interest Fund	Investment trusts	(5)	25%	-	73	-
Property Income Fund	Investment trusts		29%	30%	69	126
Responsible Investments Leader Balanced Fund	Investment trusts		32%	44%	272	229
Schroder Fixed Income Fund	Investment trusts	(4)	-	24%	-	178

## AMP Life Limited Financial Report

### Notes to financial statements

for the year ended 31 December 2013

#### 25. ASSOCIATES CONTINUED)

UNIT TRUSTS <sup>(2)</sup>						
NAME OF TRUST						
Templeton Global Trust Fund	Investment trusts	(5)	29%	-	65	-
Value Plus Australian Share Fund	Investment trusts	(5)	24%	-	57	-
Others (each less than \$50m)	Investment trusts		Various		344	163
<b>Total investments held by the life statutory funds in associated trusts</b>					<b>9,096</b>	<b>3,013</b>

**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 4(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 2013.

(5) Trust became an associate during 2013.

#### 26. 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 for performance obligations to controlled entities of AMP Life.

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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 27. 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	Executive Director	Resigned: 31 December 2013
Craig Meller	Executive Director	
Pauline Blight Johnston	Executive Director	Appointed: 1 March 2014
Anthony Coleman	Non-Executive Director	
Diana Ellert	Non-Executive Director	
John Palmer	Non-Executive Director	
Andrew Harnos	Non-Executive Director	Appointed: 10 August 2013
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 \$
2013	5,697,351	111,637	3,814,800	9,623,788
2012	5,613,295	103,037	3,376,000	9,092,332

#### Footnote:

The fees paid to non-executive directors of AMP Life are the fees for AMP Group.

#### (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 2013 (2012: 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 2013 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. (2013: \$700m, 2012: \$661m). 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 (2013: \$213m, 2012: \$196m). 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 24 and Note 25. 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.

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 27. RELATED PARTY DISCLOSURES (CONTINUED)

The company has amounts in deposits with AMP Bank Limited (2013: \$3,095m, 2012: \$3,680m).

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

		Service, management and other fees received from related parties	Service, management and other fees paid to related parties	Amounts owed by related parties	Amounts owed to related parties
Fellow subsidiaries of AMP Limited		\$m	\$m	\$m	\$m
ACPP Holding Trust	2013	7	-	-	-
	2012	8	-	-	-
AMP ASAL Pty Ltd	2013	-	-	-	-
	2012	-	-	5	-
AMP Bank Limited	2013	-	-	3,095	-
	2012	-	-	3,680	-
AMP Bermuda Ltd	2013	-	-	-	71
	2012	-	-	-	71
AMP Capital Finance Limited	2013	-	-	-	1
	2012	-	-	-	-
AMP Capital Funds Management Limited	2013	3	-	-	-
	2012	-	-	-	-
AMP Capital Investors Limited	2013	7	213	-	29
	2012	12	196	-	26
AMP Capital Shopping Centre	2013	-	6	-	-
	2012	-	6	-	-
AMP Direct Pty Limited	2013	-	2	-	-
	2012	-	-	-	-
AMP Financial Planning Pty Limited	2013	-	296	12	-
	2012	-	287	8	-
AMP Insurance Investment Holdings Pty Limited	2013	-	-	7	-
	2012	-	-	12	-
AMP Life (NZ) Investments Holdings Limited	2013	-	-	924	-
	2012	-	-	798	-
AMP Life (NZ) Investments Holdings Limited - IL Fund	2013	-	-	62	-
	2012	-	-	54	-
AMP Life (NZ) Investments Limited	2013	-	-	-	227
	2012	-	-	-	36
AMP Life (NZ) Investments Limited - IL Fund	2013	-	-	-	52
	2012	-	-	-	36
AMP Hanner Register Company Pty Limited	2013	-	-	53	1
	2012	-	-	45	1

# AMP Life Limited Financial Report

## Notes to financial statements

for the year ended 31 December 2013

### 27. RELATED PARTY DISCLOSURES (CONTINUED)

		Service, management and other fees received from related parties	Service, management and other fees paid to related parties	Amounts owed by related parties	Amounts owed to related parties
Fellow subsidiaries of AMP Limited		\$m	\$m	\$m	\$m
AMP Property Investments (Qld) Pty. Limited.	2013	-	-	-	54
	2012	-	-	-	54
AMP Services Limited	2013	-	664	-	10
	2012	46	625	4	-
AMP Superannuation Limited	2013	-	7	-	-
	2012	-	7	-	-
AMP Services (NZ) Limited	2013	-	36	-	1
	2012	-	36	-	2
Charter Financial Planning Ltd	2013	-	4	-	-
	2012	-	2	-	-
Ergo Mortgage and Savings	2013	-	-	2	-
	2012	-	-	1	-
Hillross Alliances Limited	2013	-	-	4	1
	2012	-	-	4	-
Hillross Financial Service	2013	-	21	12	-
	2012	-	19	6	-
INSSA Pty Limited	2013	-	-	-	2
	2013	-	-	-	2
Jigsaw Support Services Ltd	2013	-	-	-	-
	2012	-	1	-	-
Kent Street Investment Trust	2013	1	-	44	-
	2012	1	-	44	-
NVFM Limited	2013	-	-	-	-
	2012	-	-	-	1
NMLA Shareholders Fund	2013	-	-	1	-
	2012	-	-	3	-
NMLA No1 Stat Fund	2013	-	-	-	2
	2012	-	-	-	2
Private Equity Fund III	2013	-	-	12	-
	2012	-	-	37	-
Sydney Cove Trust	2013	2	-	-	-
	2012	1	-	-	-
TOA Pty Limited	2013	-	-	-	319
	2012	-	-	-	319
140 St Georges Terrace Trust	2013	1	-	-	-
	2012	1	-	-	-

## AMP Life Limited Financial Report

### Notes to financial statements

for the year ended 31 December 2013

#### 28. 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.

	2013 \$'000	2012 \$'000
<b>Amounts paid or payable to the auditors of AMP Life Limited for:</b>		
Auditing the financial statements of AMP Life Limited and its controlled entities	1,040	1,040
<b>Total amounts received or due and receivable by the auditors of AMP Life Limited<sup>(1)</sup></b>	<b>1,040</b>	<b>1,040</b>

Footnotes:

(1) Periodically, the AMP Life Group gains control, through the investing activity of the AMP Life statutory funds, of entities whose incumbent auditor is an audit firm other than Ernst & Young. These immaterial additional audit fees paid to non-Ernst & Young audit firms are not included in this note.

#### 29. PARENT ENTITIES

The parent entity is AMP Financial Services Holdings Limited and the company's ultimate parent entity is AMP Limited.

#### 30. 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 that has significantly affected or may significantly affect the company's operations in future years, the results of those operations in future years or the company's state of affairs in future years, which is not already reflected in this report.




## AMP Life Limited Financial Report

### Directors' declaration

for the year ended 31 December 2013

In accordance with a resolution of the directors of AMP Life Limited, the purposes of Section 295(4) of the *Corporations Act 2001*, the Directors declare that:

- (a) in the opinion of directors there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the opinion of directors the financial statements and notes are in accordance with the Corporations Act 2001, including Section 296 (compliance with accounting standards) and Section 297 (true and fair view); and
- (c) the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards as discussed in Note 1(a).

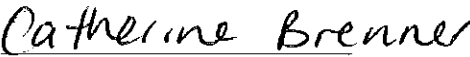
  
(signature)

  
(name)

Director

Sydney, 1 April 2014

  
(signature)

  
(name)

Director

Sydney, 1 April 2014

## **Appointed Actuary's Report for AMP Life Limited ("AMP Life")**

To the Directors of 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 for the year ended 31 December 2013 ("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:

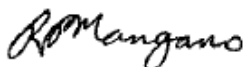
- a) The value of the policy liabilities of AMP Life and the regulatory capital requirements of AMP Life have been determined using methods and assumptions consistent with the actuarial prudential standards issued by the Australian Prudential Regulation Authority ("APRA").
- b) The allocation and distribution 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).
- c) Proper records have been kept by AMP Life from which its policy liabilities and regulatory capital requirements have been able to be properly determined.
- d) The apportionment of income and outgo used in preparing the AMP Life accounts at 31 December 2013, 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 regulatory capital requirements throughout the year ended 31 December 2013. Note that the APRA regulatory capital requirement 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, 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.



Rocco Mangano FIAA  
Appointed Actuary, AMP Life Limited  
24 April 2014

## 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 2013, 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.



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## 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 2013 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.

A stylized, handwritten signature in black ink, likely representing the firm's name or a specific representative.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Tony Johnson'.

Tony Johnson  
Partner  
Melbourne  
1 April 2014