

AMP Group Holdings Limited

ABN 88 079 804 676

**Directors' report and Financial report
for the year ended
31 December 2018**

Directors' Report

for the year ended 31 December 2018

Your directors present their report on the consolidated entity consisting of AMP Group Holdings Limited ("the Company" or "AMPGH") and the entities it controlled at the end of or during the year ended 31 December 2018.

Directors

The directors of the Company during the year ended 31 December 2018 up to the date of this report are shown below.

Gordon Lefevre (Chairman)
James Georgeson
John O'Farrell

Operating and financial review

AMP Group Holdings Limited (AMPGH group) is a wholly owned controlled entity of AMP Limited and is the holding company of the majority of the controlled entities of the AMP Limited group (AMP group/AMP). AMP Bank is wholly owned by AMP Limited and is not part of the AMPGH group. However, AMP Group Holdings Limited provides an unconditional and irrevocable guarantee over AMP Bank Limited.

The AMPGH group is a wealth management company with an expanding international investment management business and a growing retail banking business.

We have over 6,100 employees, approximately 740,000 shareholders and manage and administer \$258 billion in assets.

We provide retail customers with financial advice and superannuation, retirement income, banking, investment products and life insurance. These products and services are delivered directly from the AMPGH group and through a network of over 2,500 aligned and employed financial advisers and extensive relationships with independent financial advisers. The AMPGH group also provides corporate superannuation products and services for workplace super and self-managed superannuation funds (SMSFs).

Through AMP Capital, we manage investments across major asset classes including equities, fixed income, infrastructure, real estate, diversified, multi-manager and multi-asset funds, for domestic and international customers. AMP Capital also provides commercial, industrial, and retail real estate management services.

AMP Capital holds a 15% stake in China Life AMP Asset Management Company Limited, a funds management company which offers retail and institutional investors in China access to leading investment solutions. AMP also owns a 19.99% stake in China Life Pension Company. AMP Capital has a strategic alliance with leading Japanese bank, Mitsubishi UFJ Trust and Banking Corporation (MUFG: Trust Bank) through which MUFG: Trust Bank holds a 15% minority interest in AMP Capital Holdings Limited.

On 25 October 2018, AMP announced an agreement with Resolution Life Australia Pty Ltd (Resolution) to sell its Australian and New Zealand wealth protection and mature businesses.

In this report, our business is divided into four areas: Australian wealth management, AMP Capital, New Zealand wealth management, and Australian and New Zealand wealth protection and mature.

The *Australian wealth management* (WM) business provides retail and corporate customers with superannuation, retirement income and investment products and services. WM includes the AMPGH group's aligned and owned advice businesses and SuperConcepts.

AMP Capital is a diversified investment manager, managing investments across major asset classes including equities, fixed interest, infrastructure, real estate, diversified, multi-manager and multi-asset funds.

The *New Zealand wealth management* business encompasses the wealth management and financial advice and distribution businesses in New Zealand. The company provides customers with a variety of wealth management solutions including KiwiSaver, corporate superannuation, retail investments and a wrap investment management platform. These products and other third party financial services products (such as the AMP branded Vero general insurance products) are distributed through and supported by an extensive distribution network including AdviceFirst (a majority owned subsidiary focused on providing advice to high net worth individuals and small to medium sized businesses), employed financial advisers (to support our corporate superannuation and enterprise offerings), and a network of aligned and independent financial advisers.

Australian and New Zealand wealth protection and mature comprises Australian wealth protection (WP), Australian mature, and New Zealand wealth protection and mature. The WP business includes individual and group term, disability and income protection insurance products. Products can be held within a superannuation product or held independently of superannuation. The Australian mature business comprises products which are largely closed to new business and are in run-off. Products within Australian mature include whole of life, endowment, investment linked, investment account, Retirement Savings Account (RSA), Eligible Rollover Fund (ERF), annuities, insurance bonds, personal

superannuation and guaranteed savings accounts (GSAs). The New Zealand wealth protection and mature business includes a risk insurance and mature book (traditional participating business).

Resetting the business

On 27 July 2018, AMP outlined a series of actions being taken to reset the business, prioritise customers and strengthen risk management systems and controls.

These actions include:

- *Accelerating advice remediation* – to ensure impacted advice customers are appropriately compensated. 2018 results include a provision of \$430 million (post-tax) for potential advice remediation, inclusive of program costs, in relation to ASIC reports 499 and 515, which require an industry-wide 'look back' of advice provided from 1 July 2008 and 1 January 2009, respectively.
- *Delivering improved value for approximately 600,000 super customers* – through fee reductions to AMP's flagship MySuper products.
- *Investing to strengthen risk management systems and controls* – increasing investment to upgrade risk management controls and strengthen compliance systems across the business over the next two years.

Sale of wealth protection and mature businesses

On 25 October 2018, AMP announced the completion of its portfolio review and has entered into a sale and purchase agreement with Resolution for the sale of AMP Life Limited. This effectively includes the Australian and New Zealand wealth protection and mature business units.

Under the terms of the sale and purchase agreement, Resolution assumes the risks and profit impacts from these businesses from 1 July 2018, subject to risk sharing arrangements. AMP, however, remains responsible for the operations, capital and cost management of these businesses until the sale completes. Upon completion, AMP will retain an economic interest in the future earnings of the mature business sold to Resolution as well as hold an interest in Resolution Life Group Holdings LP.

Reported results will continue to include earnings from these businesses until the sale completes.

2018 performance

The loss attributable to shareholders of AMP Group Holdings Limited for the year ended 31 December 2018 was \$204million (2017: profit of \$675million).

Operating results by business area

The operating results of each business area for 2018 were as follows:

- *Australian wealth management* – operating earnings fell by \$28 million from 2017 to \$363 million in 2018. The decrease in operating earnings was largely due to lower investment related revenue arising from margin compression, including MySuper price changes and lower Other revenue impacts, in part offset by lower controllable costs reflecting lower variable remuneration and the full year impact of business efficiency initiatives executed in 2017.
- *AMP Capital* – AMP group's 85% share of AMP Capital's 2018 operating earnings was \$167 million, up 7% from \$156 million in 2017. AMP Capital's operating earnings benefited from strong fee income growth of 7%, partially offset by a 10% increase in controllable costs.
- *New Zealand wealth management* – operating earnings decreased by \$1 million to \$53 million in 2018 primarily due to lower wealth management income predominantly from a decline in AUM margins, partly offset by favourable advice income largely driven by growth in general insurance premiums.
- *Australian and New Zealand wealth protection and mature* – operating earnings decreased by \$334 million to a \$3 million operating loss in 2018 largely from the combination of a 11% decrease in profit margins, experience losses largely due to higher than expected claims, capitalised losses and other one-off experience items.

Capital management and dividend

Equity and reserves of the AMPGH group attributable to shareholders of AMPGH Limited decreased to \$5.3 billion at 31 December 2018 from \$5.9 billion at 31 December 2017.

Strategy and prospects

AMP remains committed to making the changes that are required to transform the business and reposition it to deliver significantly better performance and value over the long term.

Priorities for 2019 include:

- *Separating Australian and New Zealand wealth protection and mature:* to drive transaction completion by the end of Q3 2019.
- *Delivering advice remediation:* to remediate clients as quickly as possible.
- *Strengthening risk management, internal controls and governance:* to optimise investment in risk and compliance systems, and to improve risk culture.
- *Transforming Australian wealth management:* to reshape the advice network and improve economics, streamlining the operating model and product offering.
- *Growing New Zealand wealth management:* to focus on separation and growth; to defer IPO consideration until separation completion.
- *Maintaining growth momentum in AMP Capital:* to continue international expansion and leverage strategic partnerships.

Key risks

Risk is inherent to our business and AMP takes measured risks to achieve our strategic objectives. We have a clear strategic plan to drive our business forward and Enterprise Risk Management framework to identify, measure, control and report risks.

The Enterprise Risk Management (ERM) framework provides the foundation for how risks are managed across AMP. There are five key elements of the ERM framework including governance, strategy and appetite, people and culture, management information systems and the risk management process (encompassing how AMP identifies, measures, controls and reports risk).

AMP's ERM framework includes a risk management strategy which establishes the principles, requirements, roles and responsibilities for the management of risk across AMP. It also includes a risk appetite statement which articulates the nature and level of risk the board is willing to accept in the pursuit of strategic objectives. Alignment between AMP's corporate strategy and the risk appetite of the AMP Limited Board seeks to ensure that risks taken are consistent with the nature and level of risk the board is willing to accept.

Further information can be found in AMP's Enterprise Risk Management Policy, available on our website at: amp.com.au/corporategovernance.

Key business challenges

Given the nature of our business environment, we continue to face challenges that could have an adverse impact on the delivery of our strategy. The most significant business challenges (in alphabetical order) include, but are not limited to:

Business, employee and business partner conduct

The conduct of financial institutions is an area of significant focus. There is a risk that business practices and management, staff or business partner behaviours may not deliver the outcomes desired by AMP or meet the expectations of regulators and customers. An actual or perceived shortcoming in conduct by AMP or its business partners may undermine our reputation and draw increased attention from regulators.

Our code of conduct outlines AMP's expectations in relation to minimum standards of behaviour and decision making, including how we treat our employees, customers, business partners and shareholders.

AMP also works to provide a safe and respectful environment that encourages all staff to be confident and speak out about any potential conduct issues. All employees, contractors and third parties can use the Your Call program to raise concerns including regarding unethical behaviours as a whistleblower. The Group Chief Risk Officer (CRO) is AMP's designated Whistleblower Protection Officer and has direct access to the CEO and board.

Further to this, we are committed to ensuring the right culture is embedded in our everyday practices, with risk explicitly considered as part of the remuneration framework. The Group CRO is also given an additional discretion to recommend adjustments to the bonus pool for significant failures in conduct or risk management.

Directors' Report

for the year ended 31 December 2018

Competitor and customer environment

The current environment of rapid technological advancement, sustained regulatory pressure, ageing populations, rising customer expectations and intensifying competition in the wealth management and insurance industries presents both threats and opportunities to AMP's business.

Significant changes in the competitor and customer environment may disrupt AMP's business operations. For example, a significant change in customer preferences may impact sales volumes, revenue and customer satisfaction.

AMP has programs in place aimed at anticipating and responding to threats and opportunities that arise from changing customer preferences and competitor strategies and capabilities. We are investing in digital technology and using behavioural insights to understand our customers' motivations and life experiences, and help them realise their financial goals.

Cyber security threats

Cyber risk continues to be a threat in a rapidly changing technological environment and the magnitude and costs of cybercrime vary depending on the nature of the attack. While we are committed to enhancing our cyber security network, we recognise it is inevitable that cyber-attacks will occur.

AMP continues to invest in enhancing our cyber security network and we have several detective, preventative and responsive controls to protect our assets and networks. In assessing and mitigating cybercrime, AMP regularly considers vulnerabilities and potential ways to mitigate failures of people, processes and technology.

Organisational change

AMP's promise to 'help people own tomorrow' requires continuous updating of products, services and customer experiences. Managing continuous change can place significant pressure on our employees and business partners.

AMP has invested heavily in developing new approaches, models and ways of working to drive efficiency and improve our practices. We recognise that failure to appropriately manage the implementation of these changes can cause disruption to AMP's business operations. To manage this, AMP has dedicated resources with appropriate skills and expertise who establish change programs and manage transition.

Regulatory environment

AMP operates in multiple jurisdictions across the globe. Each one of these jurisdictions has its own legislative and regulatory requirements. The financial services industry both globally and in Australia and New Zealand continues to undergo a significant level of regulatory change. The Australian federal government has released the final report of the Royal Commission and while the government has responded, indicating how it will act on the recommendations, the process for these to become legislation will take time. The extent or manner in which any legislation is enacted may impact AMP's future strategy.

AMP has established internal policies, frameworks and procedures to seek to ensure our domestic and international regulatory obligations, and changes in the obligations, are met in each jurisdiction. Regulatory and compliance risks, breaches, consultations and general interactions are reported as part of our internal risk and compliance reporting process, and to the relevant regulators as and when required. A number of investigations, consultations and general interactions may be in progress with our key regulators. We actively participate in these interactions, and cooperate with regulators on such matters.

The environment

In the normal course of its business operations, AMP is subject to a range of environmental regulations of which there have been no material breaches during the year. You can find further information about AMP's environment policy and activities at amp.com.au/corporatesustainability.

Significant changes to the state of affairs

Apart from elsewhere disclosed in this report, there were no significant changes in the state of affairs during the year.

Events occurring after the reporting date

- a) In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission) to investigate conduct, practices, behaviour or business activities by financial services entities, including AMP group, that may amount to misconduct or that may have fallen below community standards and expectations. During the course of 2018, the Royal Commission has conducted a number of public hearings and required the production of documents as part of its inquiry.

The final report of the Royal Commission was publicly released on 4 February 2019 and made:

- 76 policy recommendations which may result in legislative and regulatory change; and
- a number of findings of actual or possible misconduct (including breaches of law) or conduct which does or may fall below community standards and expectations in relation to participants in the financial services industry, including the AMP group.

AMPGH is considering the various matters raised in the Commissioner's final report.

Directors' Report

for the year ended 31 December 2018

- b) On 4 February 2019, AMP Bank entered into a deed of indemnity with AMP Group Holdings Limited (AMPGH) under which AMPGH agreed to unconditionally and irrevocably indemnify AMP Bank for losses in excesses of those provided for as at 31 January 2019 suffered in connection with loans provided to an authorised representative of an AMP licensee (AMP Adviser) which relate to a change to law, regulation or a change an AMP Licensee makes to its arrangements with AMP Advisers or matters identified in the course of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
- c) On 14 March 2019 the AMPGH group issued USD300m 4 per cent Notes (the "Notes") under its US Medium Term Note Programme. The Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and mature 14 September 2021.
- d) Subsequent to year end, the AMPGH group launched a CHF140m Senior Unsecured Fixed Rate Bonds issuance under its US Medium Term Note Programme. The Bonds are expected to be issued on 18 April 2019 and mature 18 July 2023.

Other than these matters above, as at the date of this report, the directors are not aware of any matters or circumstances that have arisen since the reporting date that has significantly affected, or may significantly affect the group's operations; the results of those operations; or the group's state of affairs in future periods.

Indemnification and insurance of directors and officers

Under its constitution, the Company indemnifies, to the extent permitted by law, all current and former officers of the Company (including the directors) against any liability (including reasonable costs and expenses of defending proceedings 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 or on behalf of the AMP Limited Board.

During, and since the end of, the financial year ended 31 December 2018, AMP Limited (the Company's parent company) maintained, and paid the premium for, directors' and officers' and company reimbursement insurance for the benefit of all of the officers of the AMP group (including each director, secretary and senior manager of the company) against certain liabilities (including legal costs) as permitted by the Corporations Act 2001. The insurance policy prohibits disclosure of the nature of the liabilities covered, the amount of the premium payable and the limit of liability.

In addition, the Company has entered into deeds of indemnity, insurance and access with current and former directors and secretaries of the Company, directors of other subsidiaries of AMP Limited and secretaries of other AMP group companies. Those deeds provide that:

- those officers will have access to board papers and specified records of any AMP group company of which they are an officer (and of certain other companies) for their period of office and for at least ten (or, in some cases, seven) years after they cease to hold office (subject to certain conditions);
- the Company indemnifies the officers to the extent permitted by law, and to the extent and for the amount that the relevant officer is not otherwise entitled to be, and is not actually, indemnified by another person;
- the indemnity covers liabilities (including legal costs) incurred by the relevant officer in their capacity as a current or former director or secretary (and, in the case of directors, as a current or former officer or specified representative) of an AMP group company or, in certain cases, of an external company (where the person holds the relevant external position at the AMP group's request); and
- the AMP group will maintain directors' and officers' insurance cover for those officers, to the extent permitted by law, for the period of their office and for at least ten years after they cease to hold office.

During, and since the end of, the financial year ended 31 December 2018, in accordance with a deed of indemnity, insurance and access provided by the Company to Brian Salter, former Group General Counsel (and previously a director of the Company), legal costs totalling \$193,862.54 were paid by the AMP group for legal advice obtained by Mr Salter.

Indemnification of auditors

To the extent permitted by law, AMP Limited has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit, other than where the claim is determined to have resulted from breach or any negligent, wrongful or wilful act or omission by or of Ernst & Young. No payment has been made to indemnify Ernst & Young during or since the financial year ended 31 December 2018.

Auditor's independence declaration to the directors of AMP Group Holdings Limited

We have obtained an independence declaration from our auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' Report for the financial year ended 31 December 2018.

Rounding

In accordance with the Australian Securities and Investments Commission Corporations Instrument 2016/191, 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.

A handwritten signature in black ink, appearing to read "James Keogh", written over a horizontal dotted line.

Director

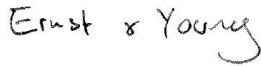
Sydney, 16 April 2019

Auditor's Independence Declaration to the Directors of AMP Group Holdings Limited

As lead auditor for the audit of AMP Group Holdings Limited for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AMP Group Holdings Limited and the entities it controlled during the financial year.



Ernst & Young



Andrew Price
Partner
Sydney
16 April 2019

AMP GROUP HOLDINGS LIMITED
ABN 88 079 804 676
FULL YEAR FINANCIAL REPORT
31 DECEMBER 2018

TABLE OF CONTENTS

Main statements	• Consolidated income statement • Consolidated statement of comprehensive income • Consolidated statement of financial position • Consolidated statement of changes in equity • Consolidated statement of cash flows
About this report	• Understanding the AMPGH financial report • Basis of consolidation • Significant accounting policies • Critical judgements and estimates
Section 1: Results for the year	• 1.1 Taxes • 1.2 Dividends
Section 2: Investments, intangibles and working capital	• 2.1 Investments in financial instruments • 2.2 Intangibles • 2.3 Receivables • 2.4 Payables • 2.5 Fair value information
Section 3: Capital structure and financial risk management	• 3.1 Contributed equity • 3.2 Interest-bearing liabilities • 3.3 Financial risk management • 3.4 Derivatives and hedge accounting • 3.5 Capital management
Section 4: Life insurance and investment contracts	• 4.1 Accounting for life insurance contracts and investment contracts • 4.2 Life insurance contracts - premiums, claims, expenses and liabilities • 4.3 Life insurance contracts - assumptions and valuation methodology • 4.4 Life insurance contracts - risk • 4.5 Other disclosure - life insurance contracts and investment contracts
Section 5: Employee disclosures	• 5.1 Key management personnel • 5.2 Defined benefit plans • 5.3 Share-based payments
Section 6: Group entities	• 6.1 Controlled entities • 6.2 Acquisitions and disposals of controlled entities • 6.3 Investments in associates • 6.4 Parent entity information
Section 7: Other disclosures	• 7.1 Notes to Consolidated statement of cash flows • 7.2 Commitments • 7.3 Provisions and contingent liabilities • 7.4 Auditors' remuneration • 7.5 New accounting standards • 7.6 Events occurring after reporting date
Directors' declaration	
Independent auditor's report	

Registered office:
33 Alfred Street
Sydney NSW 2000 Australia

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

Consolidated income statement

for the year ended 31 December 2018

	Note	2018 \$m	2017 \$m
Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests¹			
Life insurance contract related revenue	4.2(a)	2,653	2,997
Life insurance claims recovered from reinsurers	4.2(b)	487	234
Fee revenue		3,083	3,115
Other revenue		215	231
Interest income, dividends and distributions and net gains or losses on financial assets and liabilities at fair value through profit or loss		930	11,115
Interest income earned using the effective interest method		23	15
Share of profit or loss of associates accounted for using the equity method	6.3	42	29
Life insurance contract claims expense	4.2(b)	(2,254)	(2,046)
Life insurance contract premium ceded to reinsurers	4.2(a)	(989)	(635)
Fees and commission expenses		(1,689)	(1,687)
Staff and related expenses		(1,100)	(1,044)
Other operating expenses		(1,887)	(1,036)
Finance costs		(85)	(108)
Movement in external unitholder liabilities		(208)	(1,481)
Change in policyholder liabilities			
- life insurance contracts	4.2(e)	79	(1,069)
- investment contracts		55	(7,158)
Income tax credit (expense)	1.1	484	(752)
(Loss) profit for the year		(161)	720
(Loss) profit attributable to shareholders of AMP Group Holdings Limited		(204)	675
Profit attributable to non-controlling interests		43	45
(Loss) profit for the year		(161)	720

1 Income and expenses include amounts attributable to shareholders' interests, policyholders' interests in AMP Life's statutory funds and controlled entities of those statutory funds, external unitholders' interests and non-controlling interests.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 \$m	2017 \$m
(Loss) profit for the year		(161)	720
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
- net (loss) gain on cash flow hedges		(5)	-
- tax effect on cash flow hedge gain or loss		1	-
		(4)	-
Translation of foreign operations and revaluation of hedge of net investments		79	(54)
		79	(54)
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plans			
- actuarial (losses) gains	5.2	(43)	7
- tax effect on actuarial gains or losses		12	(2)
		(31)	5
Other comprehensive income (loss) for the year		44	(49)
Total comprehensive (loss) income for the year		(117)	671
Total comprehensive (loss) income attributable to shareholders of AMP Group Holdings Limited		(160)	626
Total comprehensive income attributable to non-controlling interests		43	45
Total comprehensive (loss) income for the year		(117)	671

Consolidated statement of financial position

as at 31 December 2018

	Note	2018 \$m	2017 \$m
Assets			
Cash and cash equivalents	7.1	5,850	5,916
Receivables	2.3	2,613	2,126
Intercompany tax receivable		313	88
Current tax assets		43	8
Planner registers held for sale and prepayments		97	135
Investments in financial assets	2.1	109,635	114,669
Investment properties		145	134
Investments in associates accounted for using the equity method	6.3	924	749
Property, plant and equipment		95	75
Deferred tax assets	1.1	798	559
Reinsurance asset - ceded life insurance contracts	4.2	1,073	804
Intangibles	2.2	3,208	3,218
Total assets of shareholders of AMP Group Holdings Limited, policyholders, external unitholders and non-controlling interests		124,794	128,481
Liabilities			
Payables	2.4	2,498	2,363
Intercompany tax payable		134	32
Current tax liabilities		32	25
Employee benefits		310	316
Other financial liabilities	2.1	1,365	570
Provisions	7.3	829	151
Interest-bearing liabilities	3.2	1,744	1,721
Deferred tax liabilities	1.1	1,632	2,190
External unitholder liabilities		17,059	14,468
Life insurance contract liabilities	4.2	23,257	23,683
Investment contract liabilities	4.5	68,742	75,235
Reinsurance liability - ceded life insurance contracts	4.2	1,452	1,450
Defined benefit plan liabilities	5.2	77	29
Total liabilities of shareholders of AMP Group Holdings Limited, policyholders, external unitholders and non-controlling interests		119,131	122,233
Net assets of shareholders of AMP Group Holdings Limited and non-controlling interests		5,663	6,248
Equity			
Contributed equity	3.1	7,941	7,941
Reserves		(1,965)	(2,045)
Retained earnings		(724)	(35)
Total equity of shareholders of AMP Group Holdings Limited		5,252	5,861
Non-controlling interests		411	387
Total equity of shareholders of AMP Group Holdings Limited and non-controlling interests		5,663	6,248

Consolidated statement of changes in equity

for the year ended 31 December 2018

Equity attributable to shareholders of AMP Group Holdings Limited											
	Contributed equity \$ m	Demerger reserve ¹ \$ m	Share- based payment reserve ² \$ m	Capital profits reserve ³ \$ m	Cash flow hedge reserve \$ m	Foreign currency translation and hedge of net investments reserves \$ m	Total reserves \$ m	Retained earnings \$ m	Total shareholder equity \$ m	Non- controlling interest \$ m	Total equity \$ m
2018											
Balance at the beginning of the year	7,941	(2,566)	78	329	21	93	(2,045)	(35)	5,861	387	6,248
Impact of adoption new accounting standards	-	-	-	-	-	-	-	7	7	-	7
Balance at the beginning of the year - restated	7,941	(2,566)	78	329	21	93	(2,045)	(28)	5,868	387	6,255
Profit	-	-	-	-	-	-	-	(204)	(204)	43	(161)
Other comprehensive income	-	-	-	-	(4)	79	75	(31)	44	-	44
Total comprehensive income	-	-	-	-	(4)	79	75	(235)	(160)	43	(117)
Share-based payment expense	-	-	26	-	-	-	26	-	26	2	28
Shares purchases	-	-	(21)	-	-	-	(21)	-	(21)	(1)	(22)
Dividends paid	-	-	-	-	-	-	-	(461)	(461)	(20)	(481)
Balance at the end of the year	7,941	(2,566)	83	329	17	172	(1,965)	(724)	5,252	411	5,663
2017											
Balance at the beginning of the year	6,926	(2,566)	71	329	21	147	(1,998)	115	5,043	385	5,428
Profit (loss)	-	-	-	-	-	-	-	675	675	45	720
Other comprehensive income	-	-	-	-	-	(54)	(54)	5	(49)	-	(49)
Total comprehensive income	-	-	-	-	-	(54)	(54)	680	626	45	671
Share-based payment expense	-	-	25	-	-	-	25	-	25	1	26
Share purchases	-	-	(18)	-	-	-	(18)	-	(18)	(1)	(19)
Shares issued	1,015	-	-	-	-	-	-	-	1,015	-	1,015
Dividends paid	-	-	-	-	-	-	-	(830)	(830)	(42)	(872)
Sales and acquisitions of non-controlling interests	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the year	7,941	(2,566)	78	329	21	93	(2,045)	(35)	5,861	387	6,248

1 Reserve to recognise the additional loss and subsequent transfer from shareholders' retained earnings on the demerger of AMP's UK operations in December 2003. The loss was the difference between the pro-forma loss on demerger and the market-based fair value of the UK operations.

2 The Share-based payment reserve represents the cumulative expense recognised in relation to equity-settled share-based payments less the cost of shares purchased on market in respect of entitlements.

3 The Capital profits reserve represents gains attributable to shareholders of AMPGH on the sale of minority interests in controlled entities to entities outside the AMPGH group.

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	2018 \$m	2017 \$m
Cash flows from operating activities¹			
Cash receipts in the course of operations		14,882	18,174
Interest received		1,300	1,282
Dividends and distributions received ²		2,240	2,142
Cash payments in the course of operations		(22,765)	(23,708)
Finance costs		(96)	(118)
Income tax paid		(447)	(581)
Cash flows used in operating activities	7.1	(4,886)	(2,809)
Cash flows from investing activities¹			
Net proceeds from sale of (payments to acquire):			
- investments in financial assets		5,217	879
- operating and intangible assets		(37)	(46)
Payments to acquire operating controlled entities and investments in associates accounted for using the equity method		(114)	(293)
Cash flows from investing activities		5,066	540
Cash flows from financing activities			
Net movement in deposits from customers		24	(1)
Proceeds from borrowings - non-banking operations ¹		289	391
Repayment of borrowings - non-banking operations ¹		(216)	-
On-market share buy-back		-	1,015
Repayment of subordinated debt		(50)	-
Dividends paid ²		(461)	(830)
Cash flows (used in) from financing activities		(414)	575
Net decrease in cash and cash equivalents		(234)	(1,694)
Cash and cash equivalents at the beginning of the year		9,536	11,238
Effect of exchange rate changes on cash and cash equivalents		(2)	(8)
Cash and cash equivalents at the end of the year¹	7.1	9,300	9,536

1 Cash flows and cash and cash equivalents include amounts attributable to shareholders' interests, policyholders' interests in AMP Life's statutory funds and controlled entities of those statutory funds, external unitholders' interests and non-controlling interests. Cash equivalents for the purpose of the Consolidated statement of cash flows includes short-term bills and notes.

2 Dividends and distributions received are amounts of cash received mainly from investments held by AMP life insurance entities' statutory funds and controlled entities of the statutory funds. Dividends and distributions reinvested have been treated as non-cash items.

Notes to the financial statements

for the year ended 31 December 2018

About this report

This section outlines the structure of the AMPGH group, information useful to understanding the AMPGH group's financial report and the basis on which the financial report has been prepared.

(a) Understanding the AMPGH financial report

The AMPGH group is comprised of AMP Group Holdings Limited (the parent), a holding company incorporated and domiciled in Australia, and the entities it controls (subsidiaries). The consolidated financial statements of AMP Group Holdings Limited include the financial information of its controlled entities. AMPGH group comprises the majority of the controlled entities in the AMP Limited consolidated economic entity (the AMP group/AMP).

AMPGH business operations are carried out by a number of these controlled entities including AMP Life Limited (AMP Life) – a registered life insurance entity and its related controlled entities, AMP Bank Limited (AMP Bank) and AMP Capital investment management companies.

The business of AMP Life is conducted through statutory funds and relates to the provision of wealth management and life insurance products to investors, referred to as policyholders. The investment assets of the statutory funds represent the majority of the assets of the AMPGH group, a large proportion of which is held on behalf of policyholders. The corresponding liabilities to policyholders are classified as either life investment or life insurance contract liabilities. Under Australian Accounting Standards, some assets held on behalf of policyholders (and the related tax balances) are included in the financial statements at different values to those used in the calculation of the liability to policyholders in respect of the same assets. The impact of these differences flows through to shareholder profit and they are referred to as accounting mismatches.

AMP Capital operates a large number of registered managed investment schemes and other pooled investment vehicles. AMP Life makes significant policyholder investments into these vehicles. In many cases, this results in the vehicle being controlled and therefore consolidated in its entirety into the AMPGH group financial statements, including the portion that represents the shareholdings of external parties, known as non-controlling interests.

As a consequence, these consolidated financial statements include not only the assets and liabilities, income and expenses and cash flows attributable to AMP Group Holdings Limited's shareholders but also the assets and liabilities, income and expenses and cash flows of the statutory funds attributable to policyholders and non-controlling interests.

Agreement to sell wealth protection and mature businesses

On 25 October 2018, AMP announced an agreement with Resolution Life Australia Pty Ltd (Resolution) to sell its Australian and New Zealand wealth protection (WP) and mature businesses. The sale is subject to regulatory approvals and is expected to complete in the second half of 2019.

Consideration for the sale payable on transaction completion comprises cash, AT1 preference shares in AMP Life Limited and non-cash consideration comprising an economic interest in the future earnings of the mature business sold to Resolution and an interest in Resolution Life Group Holdings LP.

The interests received as non-cash consideration will be fair valued by AMP on completion and, together with cash proceeds, will be treated as the accounting purchase price. Under the terms of the agreement, Resolution assumes profit and loss from the WP and mature businesses from 1 July 2018, subject to specific risk sharing arrangements. These profit impacts are transferred to Resolution as an adjustment to the purchase price upon completion. Adjustments to the purchase price will affect the profit or loss recognised by AMP at completion.

The businesses subject to sale were controlled by the AMP group throughout the reporting period and as a result the income and expenses, assets and liabilities and cash flows of these businesses are consolidated within the financial report, including the profits which will form part of the completion purchase price adjustment.

The sale is subject to a number of conditions, including the separation of AMP's retained wealth management business from the WP and mature business being sold to Resolution. As the WP and mature businesses subject to the sale do not meet the AASB 5 Non-current Assets Held for Sale and Discontinued Operations criteria, the results of those businesses have not been presented separately in the financial report.

The financial report:

- is a general purpose financial report;
- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board;
- is presented in Australian dollars with all values rounded to the nearest million dollars (\$m), unless otherwise stated;
- has been prepared on a going concern basis generally using an historical cost basis; however where permitted under accounting standards a different basis may be used, including the fair value basis for:
 - assets and liabilities associated with life insurance contracts; and
 - assets and liabilities associated with investment contracts;
- presents assets and liabilities on the face of the Consolidated statement of financial position in decreasing order of liquidity and therefore does not distinguish between current and non-current items; and
- presents reclassified comparative information where required for consistency with the current year's presentation within the annual report.

AMP Group Holdings Limited is a for-profit entity and is limited by shares.

The financial statements for the year ended 31 December 2018 were authorised for issue on 16 April 2019 in accordance with a resolution of the directors.

About this report

(b) Basis of consolidation

Entities are fully consolidated from the date of acquisition, being the date on which the AMPGH group obtains control, and continue to be consolidated until the date that control ceases. Control exists where the AMPGH group 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 entity.

Income, expenses, assets, liabilities and cash flows of controlled entities are consolidated into the AMPGH group financial statements, along with those attributable to the shareholders of the parent entity. All inter-company transactions are eliminated in full, including unrealised profits arising from intra-group transactions.

When a controlled managed investment scheme is consolidated, the share of the unitholder liability attributable to the AMPGH group 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 Consolidated statement of financial position.

Materiality

Information has only been included in the financial report to the extent that it has been considered material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the AMPGH group;
- it helps explain the impact of significant changes in the AMPGH group; and/or
- it relates to an aspect of the AMPGH group's operations that is important to its future performance.

(c) Significant accounting policies

The significant accounting policies adopted in the preparation of the financial report are contained in the notes to the financial statements to which they relate. All accounting policies have been consistently applied to the current year and comparative period, unless otherwise stated. Where an accounting policy relates to more than one note or where no note is provided, the accounting policies are set out below.

Fee revenue

Fee revenue represents revenue from contracts with customers which arises primarily from the provision of (i) investment management and (ii) financial advisory services. Revenue is recognised when control of services is transferred to the customer at an amount that reflects the consideration which AMPGH group is entitled to in exchange for the services provided. As the customer simultaneously receives and consumes the benefits as the service is provided, control is transferred over time. Accordingly, revenue is recognised over time.

Fee rebates provided to customers are recognised as a reduction in fee revenue.

(i) Investment management and related fees

Fees are charged to customers in connection with the provision of investment management and other related services. These performance obligations are satisfied on an ongoing basis, usually daily, and revenue is recognised as the service is provided.

(ii) Financial advisory fees

Financial advisory fees consist of commissions and fee-for-service revenue and are earned for providing customers with financial advice and performing related advisory services. These performance obligations are satisfied over time. Accordingly, revenue is recognised over time.

A substantial majority of the financial advisory fees received are paid to advisers. Financial advisory fees are presented gross of the related cost which is presented in Fees and commission expenses in the Consolidated income statement.

Interest, dividends and distributions income

Interest income is recognised when the AMPGH group obtains control of the right to receive the interest. Revenue from dividends is recognised when the AMPGH group's right to receive payment is established.

Foreign currency transactions

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars (the functional currency) using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities carried at fair value	Date fair value is determined

Foreign exchange gains and losses resulting from translation of foreign exchange transactions are recognised in the Consolidated income statement, except for qualifying cash flow hedges, which are deferred to equity.

On consolidation the assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date
Reserves	Reporting date

Notes to the financial statements

for the year ended 31 December 2018

About this report

Foreign exchange differences resulting from translation of foreign operations are initially recognised in the foreign currency translation reserve and subsequently transferred to the Consolidated income statement on disposal of the foreign operation.

(d) Critical judgements and estimates

Preparation of the financial statements requires management to make judgements, estimates and assumptions about future events.

Information on critical judgements and estimates considered when applying the accounting policies can be found in the following notes:

Accounting judgements and estimates	Note		Page
Tax	1.1	Taxes	10
Fair value of financial assets	2.1	Investments in financial instruments	14
Impairment	2.1	Expected credit losses (ECLs)	14
Goodwill and acquired intangible assets	2.2	Intangibles	16
Life insurance and investment contract liabilities	4.1	Accounting for life insurance and investment contracts	35
Consolidation	6.1	Controlled entities	64
Provisions and contingent liabilities	7.3	Provisions and contingent liabilities	70

Section 1: Results for the year

- 1.1 Taxes
- 1.2 Dividends

1.1 Taxes

This sub-section outlines the impact of income taxes on the results and financial position of AMPGH. In particular:

- the impact of tax on the reported result;
- amounts owed to/receivable from the tax authorities;
- deferred tax balances that arise due to differences in the tax and accounting treatment of balances recorded in the financial report; and
- discussion of the impacts of life insurance policyholder tax.

These financial statements include the disclosures relating to tax required under accounting standards. Further information on AMP's tax matters can be found in the AMP Tax Report at amp.com.au/shares.

(a) Income tax expense

The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders. In respect of income tax expense attributable to shareholders, the tax rate which applies is 30% in Australia and 28% 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%, and certain classes of income on some annuity business are tax-exempt. The rate applicable to New Zealand life insurance business is 28%.

The following table provides a reconciliation of differences between prima facie tax calculated as 30% of the profit before income tax for the year and the income tax expense recognised in the Consolidated income statement for the year.

	2018 \$m	2017 \$m
(Loss) profit before income tax	(645)	1,472
Policyholder tax credit (expense) recognised as part of the change in policyholder liabilities in determining profit before tax	399	(472)
(Loss) profit before income tax excluding tax charged to policyholders	(246)	1,000
Tax at the Australian tax rate of 30% (2017: 30%)	74	(300)
Shareholder impact of life insurance tax treatment	(2)	(33)
Tax concessions including research and development and offshore banking unit	7	8
Non-deductible expenses	(14)	(18)
Non-taxable income	6	15
Other items	(3)	28
Over provided in previous years	8	3
Utilisation of previously unrecognised tax losses	-	3
Differences in overseas tax rates	9	14
Income tax credit (expense) attributable to shareholders and non-controlling interest	85	(280)
Income tax credit (expense) attributable to policyholders	399	(472)
Income tax credit (expense) per Income statement	484	(752)

Section 1: Results for the year

1.1 Taxes (continued)

(b) Analysis of income tax expense

	2018 \$m	2017 \$m
Current tax expense	(320)	(475)
Increase (decrease) in deferred tax assets	239	(26)
Decrease (increase) in deferred tax liabilities	558	(244)
Over (under) provided in previous years including amounts attributable to policyholders	7	(7)
Income tax credit (expense)	484	(752)

(c) Analysis of deferred tax balances

	2018 \$m	2017 \$m
Analysis of deferred tax assets		
Expenses deductible and income recognisable in future years	702	461
Unrealised movements on borrowings and derivatives	3	1
Unrealised investment losses	41	40
Losses available for offset against future taxable income	1	-
Other	51	57
Total deferred tax assets	798	559

Analysis of deferred tax liabilities

Unrealised investment gains	1,174	1,736
Other	458	454
Total deferred tax liabilities	1,632	2,190

(d) Amounts recognised directly in equity

	2018 \$m	2017 \$m
Deferred income tax credit (expense) related to items taken directly to equity during the current year	13	(2)

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

	2018 \$m	2017 \$m
Revenue losses	-	-

Notes to the financial statements

for the year ended 31 December 2018

Section 1: Results for the year

1.1 Taxes (continued)

Accounting policy – recognition and measurement

Income tax expense

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

- temporary differences between the tax bases of assets and liabilities and their Consolidated 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 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 business and life insurance contracts business

The income tax expense recognised in the Consolidated income statement of the AMPGH group, which arises in respect of AMP Life, reflects tax imposed on shareholders as well as policyholders. Investment contracts liabilities and life insurance contracts liabilities are established in Australia net, and in New Zealand gross, of the policyholders' share of any current tax payable and deferred tax balances of the AMP group. Arrangements made with some superannuation funds result in AMP Life making payments to the Australian Taxation Office in relation to contributions tax arising in those funds. The amounts paid are recognised as a decrease in investment contract liabilities and not included in income tax expense.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences and are measured at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on tax rates that have been enacted or substantively enacted for each jurisdiction at the reporting date. Deferred tax assets and liabilities, including amounts in respect of investment contracts and life insurance contracts, are not discounted to present value.

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.

Tax consolidation

AMP Limited and its wholly-owned Australian controlled entities are part of a tax-consolidated group, with AMP Group Holdings Limited being the head entity. A tax funding agreement has been entered into by the head entity and the controlled entities in the tax-consolidated group and requires entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current or deferred tax assets in respect of tax losses arising from external transactions occurring after 30 June 2003, the implementation date of the tax-consolidated group.

Critical accounting estimates and judgements:

The AMPGH group 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 the AMPGH group 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.

Notes to the financial statements

for the year ended 31 December 2018

Section 1: Results for the year**1.2 Dividends**

Dividends paid and proposed during the year are shown in the table below:

	2018	2017
Dividend per share (cents)		
Interim	1.5	3.5
Final	2.9	4.5
Cost (in \$m)		
Interim	155	362
Final	306	468

Section 2: Investments, intangibles and working capital

This section highlights the AMPGH group's assets and working capital used to support the AMPGH group's activities.

- 2.1 Investments in financial instruments
- 2.2 Intangibles
- 2.3 Receivables
- 2.4 Payables
- 2.5 Fair value information

2.1 Investments in financial instruments

	2018 \$m	2017 \$m
Financial assets measured at fair value through profit or loss¹		
Equity securities and listed managed investment schemes	55,940	58,698
Debt securities ²	32,577	32,457
Investments in unlisted managed investment schemes	19,838	22,398
Derivative financial assets	1,048	1,071
Other financial assets	-	5
Total financial assets measured at fair value through profit or loss	109,403	114,629
Financial assets measured at amortised cost³		
Loans and advances	10	5
Debt securities	222	35
Total financial assets measured at amortised cost	232	40
Total financial assets	109,635	114,669
Other financial liabilities		
Derivative financial liabilities	1,201	467
Collateral deposits held ²	164	103
Total other financial liabilities	1,365	570

1 Financial assets measured at fair value through profit or loss are mainly assets of the AMP Life's statutory funds and their controlled entities.

2 Included within debt securities are assets held to back the liability for collateral deposits.

3 Financial assets measured at amortised cost are presented net of immaterial expected credit losses (ECLs).

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital

2.1 Investments in financial instruments (continued)

Accounting policy – recognition and measurement

Recognition and derecognition of financial assets and liabilities

Financial assets and financial liabilities are recognised at the date the AMPGH group becomes a party to the contractual provisions of the instrument. At initial recognition, financial assets are classified as subsequently measured at fair value through profit or loss, and amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the AMPGH group's business model for managing them.

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.

Financial assets measured at fair value through profit or loss

Financial assets measured 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 profit or loss in the period in which they arise.

Financial assets measured at amortised cost – loans and advances and debt securities

Loans and advances and debt securities are measured at amortised cost when both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. These assets are subsequently recognised at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment of financial assets

An allowance for expected credit losses (ECLs) is recognised for financial assets not held at fair value through profit or loss. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. The key elements in the measurement of ECLs are as follows:

- PD - The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD - Loss given default is an estimate of the loss arising in the case where default occurs at a given time. It is based on the difference between cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive, including from the realisation of any collateral.

The AMPGH group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

Depending on the nature of the financial asset, the AMPGH group applies either a three-stage approach or a simplified approach to measure ECLs.

Critical accounting estimates and judgements:

Financial assets measured at fair value

Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair value of financial instruments is set out in note 2.5.

Impairment

The impairment provisions (individual and collective) are outputs of ECL models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting estimates and judgements include:

- AMPGH group's internal grading which assigns PDs to the individual grades;
- AMPGH group's criteria for assessing if there has been a significant increase in credit risk;
- Development of ECL models, including the various formulas and choice of inputs; and
- Determination of associations between macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Section 2: Investments, intangibles and working capital

2.2 Intangibles

	Goodwill ¹ \$m	Capitalised costs \$m	Value of in-force business \$m	Distribution networks \$m	Other intangibles \$m	Total \$m
2018						
Balance at the beginning of the year	2,123	434	498	147	16	3,218
Additions through acquisitions of controlled entities	7	-	-	11	-	18
Additions through separate acquisitions	-	-	-	36	-	36
Additions through internal development	-	189	-	-	-	189
Reductions through disposal	-	-	-	(11)	-	(11)
Transferred to inventories	-	-	-	(3)	-	(3)
Amortisation expense	-	(118)	(78)	(23)	(1)	(220)
Impairment loss	-	-	-	(19)	-	(19)
Balance at the end of the year	2,130	505	420	138	15	3,208
<i>Cost</i>	<i>2,906</i>	<i>1,646</i>	<i>1,191</i>	<i>393</i>	<i>110</i>	<i>6,246</i>
<i>Accumulated amortisation and impairment</i>	<i>(776)</i>	<i>(1,141)</i>	<i>(771)</i>	<i>(255)</i>	<i>(95)</i>	<i>(3,038)</i>
2017						
Balance at the beginning of the year	2,117	382	600	99	1	3,199
Additions through acquisitions of controlled entities	6	-	-	24	-	30
Additions through separate acquisitions	-	-	-	26	15	41
Additions through internal development	-	191	-	-	-	191
Reductions through disposal	-	-	-	(13)	-	(13)
Transferred from inventories	-	-	-	46	-	46
Amortisation expense	-	(138)	(102)	(31)	-	(271)
Impairment loss	-	(1)	-	(4)	-	(5)
Balance at the end of the year	2,123	434	498	147	16	3,218
<i>Cost</i>	<i>2,899</i>	<i>1,457</i>	<i>1,191</i>	<i>360</i>	<i>110</i>	<i>6,017</i>
<i>Accumulated amortisation and impairment</i>	<i>(776)</i>	<i>(1,023)</i>	<i>(693)</i>	<i>(213)</i>	<i>(94)</i>	<i>(2,799)</i>

1 Total goodwill comprises amounts attributable to shareholders of \$2,115m (2017: \$2,108m) and amounts attributable to policyholders of \$15m (2017: \$15m).

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital**2.2 Intangibles (continued)****Accounting policy – recognition and measurement****Goodwill**

Goodwill acquired in a business combination is recognised at cost and subsequently measured at cost less any accumulated impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill includes balances attributable to shareholders and balances attributable to policyholders in investment entities controlled by the AMP Life's statutory funds.

Capitalised costs

Costs are capitalised when the costs relate to the creation of an asset with expected future economic benefits which are capable of reliable measurement. Capitalised costs are amortised on a straight-line basis over the estimated useful life of the asset, commencing at the time the asset is first put into use or held ready for use, whichever is the earlier.

Value of in-force business

The value of in-force business represents the fair value of future business arising from existing contractual arrangements of a business acquired as part of a business combination. The value of in-force business is initially measured at fair value and is measured at fair value less amortisation and any accumulated impairment losses.

Distribution networks

Distribution networks such as customer lists, financial planner client servicing rights or other distribution-related rights, either acquired separately or through a business combination, are initially measured at fair value and subsequently measured at cost less amortisation and any accumulated impairment losses.

Amortisation

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful life of the intangible asset. The estimated useful lives are generally:

Item	Useful life
Capitalised costs	Up to 10 years
Value of in-force business – wealth management and distribution businesses	10 years
Value of in-force business – wealth protection and mature business	20 years
Distribution networks	2 – 15 years

The useful life of each intangible asset is reviewed at the end of the period and, where necessary, adjusted to reflect current assessments.

Amortisation on the grandfathered commission component of distribution networks was adjusted to reflect a useful life which will expire by 31 December 2020.

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital**2.2 Intangibles (continued)****Impairment testing**

Goodwill and intangible assets that have indefinite useful lives are tested at least annually for impairment. Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). An impairment loss is recognised when the goodwill carrying amount exceeds the CGU's recoverable amount.

Goodwill attributable to shareholders

The goodwill attributable to shareholders of \$2,115m (2017: \$2,108m) primarily arose from the acquisition of AMP AAPH Limited group in 2011, a previous Life Act Part 9 transfer of life insurance business into the statutory funds of AMP Life as well as other business combinations where the AMP group was the acquirer.

Consistent with the changes to the AMPGH group's operating segments, as disclosed in the director's report, the composition of the AMPGH group's CGUs has changed. The revised CGUs as at 31 December 2018 and the goodwill attributable to shareholders allocated to each CGU are disclosed in the table below. The comparative period has been re-presented to be consistent with current year presentation.

\$m	2018	2017
Australian wealth management (WM)	1,499	1,494
Australian and New Zealand wealth protection (WP) and mature	459	459
New Zealand wealth management	70	68
AMP Capital	87	87
	2,115	2,108

The recoverable amount for WM has been determined by the fair value less costs of disposal based on the estimated embedded value plus the value of one year's new business times a multiplier of five to 15. The estimated embedded value is a calculation that 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 estimated embedded value and value of one year's new business has been calculated based on the following key assumptions and estimates:

- cash flows estimated over the expected life of the in-force products;
- discontinuance rates, franking credits, risk discount rates, investment returns and inflation rates;
- future maintenance and investment expenses based on unit costs derived from budgeted amounts for the following year and increased in future years for expected rates of inflation; and
- risk discount rate based on an annualised 10-year government bond yield plus a discount margin of 5% (2017: 5%) for calculating the value of in-force and new business.

The Australian Wealth Management (WM) estimated embedded value was impacted during the period by the unwinding of internal distribution arrangements, adjustments for tax and product revenue transfers in anticipation of the sale of the Australian and New Zealand wealth protection and mature businesses. The reduction in the WM estimated embedded value did not result in an impairment to goodwill and no reasonably possible change to a key assumption used in the embedded value model would result in an impairment at 31 December 2018. Nevertheless, given the uncertainties that exist in the current industry environment, including the prospect of legislative change, there are reasonably possible future scenarios which could give rise to an impairment of the goodwill allocated to the WM CGU.

The recoverable amount of Australian and New Zealand WP and mature has been determined by reference to the expected sale proceeds from Resolution, less an allowance for costs of disposal.

The recoverable amount of New Zealand wealth management and AMP Capital CGUs has been determined based on multiple ranging from 13 - 15 times adjusted current period earnings, which approximates the fair value of these businesses less an allowance for costs of disposal.

Goodwill attributable to policyholders

Policyholder cash-generating units were allocated \$15m goodwill at 31 December 2018 (31 December 2017: \$15m).

Impairment loss

The conclusion from the goodwill impairment testing is that there has been no impairment to the amount of the goodwill recognised for all CGUs for the year.

Critical accounting estimates and judgements:

Management applies judgement in selecting valuation techniques and setting valuation assumptions to determine the:

- acquisition date fair value and estimated useful life of acquired intangible assets;
- allocation of goodwill to CGUs and determining the recoverable amount of goodwill; and
- assessment of whether there are any impairment indicators for acquired intangibles and, where required, in determining the recoverable amount.

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital**2.3 Receivables**

	2018 \$m	2017 \$m
Investment related receivables	1,664	1,376
Life insurance contract premiums receivable	330	333
Reinsurance receivables	186	81
Trade debtors and other receivables	433	336
Total receivables¹	2,613	2,126
<i>Current</i>	<i>2,608</i>	<i>2,104</i>
<i>Non-current</i>	<i>5</i>	<i>22</i>

1 Receivables are presented net of ECL of \$6m.

Accounting policy – recognition and measurement**Receivables**

Investment related receivables and Life insurance contract premium receivables backing investment contract liabilities and life insurance contract liabilities are financial assets measured at fair value through profit or loss. Reinsurance receivables and Trade debtors and other receivables are measured at amortised cost, less any allowance for ECLs.

The AMPGH group applies a simplified approach in calculating ECLs for receivables. Therefore, the AMPGH group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The AMPGH group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 Payables

	2018 \$m	2017 \$m
Investment related payables	762	746
Life insurance and investment contracts in process of settlement	302	311
Accrued expenses, trade creditors and other payables	925	666
Parent entity	506	640
Reinsurance payables	3	-
Total payables	2,498	2,363
<i>Current</i>	<i>2,374</i>	<i>2,246</i>
<i>Non-current</i>	<i>124</i>	<i>117</i>

Accounting policy – recognition and measurement**Payables**

Payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount payable approximates fair value.

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital**2.5 Fair value information**

The following table shows the carrying amount and estimated fair values of financial instruments and investment properties, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount	Level 1	Level 2	Level 3	Total fair value
	\$m	\$m	\$m	\$m	\$m
2018					
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	55,940	52,807	769	2,364	55,940
Debt securities	32,577	1,978	30,482	117	32,577
Investments in unlisted managed investment schemes	19,838	-	17,940	1,898	19,838
Derivative financial assets	1,048	393	655	-	1,048
Investment properties	145	-	-	145	145
Total financial assets measured at fair value	109,548	55,178	49,846	4,524	109,548
Financial assets not measured at fair value					
Loans and advances	10	-	-	10	10
Debt securities	222	-	225	-	225
Total financial assets not measured at fair value	232	-	225	10	235
Financial liabilities measured at fair value					
Derivative financial liabilities	1,201	225	976	-	1,201
Collateral deposits held	164	-	164	-	164
Investment contract liabilities	68,742	-	1,810	66,932	68,742
Total financial liabilities measured at fair value	70,107	225	2,950	66,932	70,107
Financial liabilities not measured at fair value					
AMP Corporate entity borrowings	1,363	-	1,378	-	1,378
Borrowings within investment entities controlled by AMP Life statutory funds	381	-	381	-	381
Total financial liabilities not measured at fair value	1,744	-	1,759	-	1,759
2017					
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	58,698	56,034	728	1,936	58,698
Debt securities	32,457	1	32,344	112	32,457
Investments in unlisted managed investment schemes	22,398	-	20,964	1,434	22,398
Derivative financial assets	1,071	210	861	-	1,071
Investment properties	134	-	-	134	134
Other financial assets	5	-	5	-	5
Total financial assets measured at fair value	114,763	56,245	54,902	3,616	114,763
Financial assets not measured at fair value					
Loans and advances	5	-	5	-	5
Debt securities - held to maturity	35	-	35	-	35
Total financial assets not measured at fair value	40	-	40	-	40
Financial liabilities measured at fair value					
Derivative financial liabilities	467	148	319	-	467
Collateral deposits held	103	-	103	-	103
Investment contract liabilities	75,235	-	2,028	73,207	75,235
Total financial liabilities measured at fair value	75,805	148	2,450	73,207	75,805
Financial liabilities not measured at fair value					
AMP Corporate entity borrowings	1,124	-	1,133	-	1,133
Borrowings within investment entities controlled by AMP Life statutory funds	597	-	597	-	597
Total financial liabilities not measured at fair value	1,721	-	1,730	-	1,730

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital**2.5 Fair value information (continued)**

AMPGH's methodology and assumptions used to estimate the fair value of financial instruments are described below:

<i>Listed equity securities and listed managed investment schemes</i>	The fair value of listed equity securities traded 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, fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
<i>Debt securities</i>	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.
<i>Loans</i>	The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the loans. As the loans are unlisted, the discount rates applied are based on the yield curve appropriate to the remaining term of the loans. The loans may be measured at an amount in excess of fair value due to fluctuations on fixed rate loans. As the fluctuations in fair value do not represent a permanent diminution and the carrying amounts of the loans are recorded at recoverable amounts after assessing impairment, it is not appropriate to restate their carrying amounts.
<i>Unlisted managed investment schemes</i>	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.
<i>Derivative financial assets and liabilities</i>	The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices (current bid price or current offer price) at the reporting date. The fair value of financial instruments not traded in an active market (eg 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. The models use a number of inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying instruments. Some derivatives contracts are significantly cash collateralised, thereby minimising both counterparty risk and the group's own non-performance risk.
<i>Corporate Borrowings</i>	Borrowings comprise commercial paper, drawn liquidity facilities, various floating-rate and medium-term notes and subordinated debt. The estimated fair value of borrowings is determined with reference to quoted market prices. For borrowings where quoted market prices are not available, a discounted cash flow model is used, based on a current yield curve appropriate for the remaining term to maturity. For short-term borrowings, the par value is considered a reasonable approximation of the fair value.
<i>Investment properties</i>	The fair value of investment properties is determined by independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. 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.
<i>Investment contract liabilities</i>	See note 4.1.

The financial assets and liabilities measured at fair value are categorised using the fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

- Level 1: the fair value is valued by reference to quoted prices and active markets for identical assets;
- Level 2: the fair value is estimated 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); and
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

There have been no significant transfers of financial assets or liabilities measured at fair value between Level 1 and Level 2 during the 2018 and 2017 financial years. Loans and advances, previously categorised as Level 2, has been transferred to Level 3 as the valuation methodology has updated to include unobservable inputs. Transfers to/from Level 3 for financial assets measured at fair value on a recurring basis are shown in the Reconciliation of Level 3 values table later in this note.

Notes to the financial statements

for the year ended 31 December 2018

Section 2: Investments, intangibles and working capital**2.5 Fair value information (continued)****Level 3 fair values**

For financial assets measured at fair value on a recurring basis and 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 six months, or more frequently if required.

The following table shows the valuation techniques used in measuring Level 3 fair values of financial assets measured at fair value on a recurring basis, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Equity securities and listed managed investment schemes	Discounted cash flow approach utilising cost of equity as the discount rate.	Discount rate Terminal value growth rate Cash flow forecasts.
Debt securities	Discounted cash flow approach.	Discount rate Cash flow forecasts
Investments in unlisted managed investment schemes	Published redemption prices.	Judgement made in determining unit prices
Investment contract liabilities	Published unit prices and the fair value of backing assets.	Fair value of financial instruments Cash flow forecasts Credit risk
Investment properties	Comparable sales analysis. Capitalised income approach. Discounted cash flow approach utilising market determined risk adjusted discount rate.	Capitalisation rate Discount rate Cash flow forecasts

Sensitivity analysis

Reasonably possible alternative assumptions could have been used in determining the fair values of financial instruments measured at fair value on a recurring basis and categorised as Level 3 in the fair value hierarchy. These include assumptions such as credit risk and discount rates for determining the valuation range on an individual investment. However, the impact to AMPGH group of any reasonable possible alternative assumptions is not significant as any movement in the value of these financial assets is substantially offset by a corresponding increase or decrease in the value of investment contract liabilities.

The AMPGH group is not exposed to any impact from a potential change in the fair value of Debt securities, Investments in unlisted managed investments schemes and Investment properties which are categorised as Level 3 as these assets solely back investment linked policy liabilities. There is an insignificant exposure to changes in the fair value of Equity securities and listed managed investment schemes categorised as Level 3. AMPGH group's sensitivity to changes in the fair value of these Level 3 assets is disclosed in the following table:

	2018		2017	
	(+)	(-)	(+)	(-)
	\$m	\$m	\$m	\$m
Financial assets				
Equity securities and listed managed investment schemes ^{1,2}	92	(91)	111	(103)
Financial liabilities				
Investment contract liabilities ²	94	(92)	114	(105)
Net sensitivity	(2)	1	(3)	2

1 The discount rates used to value the assets range from 7.3% to 16.3%. Sensitivities have been determined by up to +/- 100 basis point change in the discount rates.

2 Investments in equity securities and listed managed investment schemes are predominantly policyholder assets. Accordingly, any movements in the value of the assets are largely offset by a corresponding movement in investment contract liabilities.

Section 2: Investments, intangibles and working capital

2.5 Fair value information (continued)

Level 3 fair values (continued)

Reconciliation of Level 3 values

The following table shows movements in the fair values of financial instruments measured at fair value on a recurring basis and categorised as Level 3 in the fair value hierarchy:

	Balance at the beginning of the period \$m	FX gains or losses ¹ \$m	Total gains/ losses ¹ \$m	Purchases/ deposits \$m	Sales/ withdrawals \$m	Net transfers in/(out) ² \$m	Balance at the end of the period \$m	Total gains and losses on assets and liabilities held at reporting date \$m
2018								
Assets classified as Level 3								
Equity securities and listed managed investment schemes	1,936	-	179	388	(150)	11	2,364	123
Debt securities	112	-	1	21	(15)	(2)	117	2
Investments in unlisted managed investment schemes	1,434	-	55	623	(268)	54	1,898	99
Investment properties	134	-	11	-	-	-	145	11
Liabilities classified as Level 3								
Investment contract liabilities	73,207	13	(1,172)	7,720	(12,836)	-	66,932	(1,172)
2017								
Assets classified as Level 3								
Equity securities and listed managed investment schemes	2,499	-	268	439	(1,088)	(182)	1,936	271
Debt securities	19	-	(20)	174	(50)	(11)	112	(20)
Investments in unlisted managed investment schemes	942	-	(159)	1,392	(955)	214	1,434	(163)
Investment properties	127	-	-	7	-	-	134	-
Other financial assets	5	-	(1)	(1)	-	(3)	-	(1)
Liabilities classified as Level 3								
Investment contract liabilities	69,327	(17)	6,010	10,150	(12,263)	-	73,207	6,006

1 Gains and losses are classified in investment gains and losses or change in policyholder liabilities in the Consolidated income statement.

2 The AMPGH group 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 or where the AMPGH group ceases to consolidate a controlled entity.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management

This section provides information relating to:

- AMPGH group's capital management and equity and debt structure; and
- exposure to financial risks – how the risks affect financial position and performance and how the risks are managed, including the use of derivative financial instruments.

The capital structure of the AMPGH group consists of equity and debt. AMPGH determines the appropriate capital structure in order to finance the current and future activities of the AMPGH group and satisfy the requirements of the regulator. The directors review the group's capital structure and dividend policy regularly and do so in the context of the group's ability to satisfy minimum and target capital requirements, and to protect and meet the needs of the policyholders.

- 3.1 Contributed equity
 - 3.2 Interest-bearing liabilities
 - 3.3 Financial risk management
 - 3.4 Derivatives and hedge accounting
 - 3.5 Capital management
-

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.1 Contributed equity**

	2018 \$m	2017 \$m
Issued capital		
10,373,884,652 (2017: 10,373,884,652) ordinary shares fully paid	7,941	7,941
Total contributed equity		
10,373,884,652 (2017: 10,373,884,652) ordinary shares fully paid	7,941	7,941
Issued capital		
Balance at the beginning of the year	7,941	6,926
Nil (2017: 3) shares issued	-	1,015
Balance at the end of the year	7,941	7,941

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.

Accounting policy – recognition and measurement**Issued capital**

Issued capital in respect of ordinary shares is recognised as the fair value of consideration received by AMP Group Holdings Limited 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.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.2 Interest-bearing liabilities****(a) Interest-bearing liabilities**

	2018			2017		
	Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
Interest-bearing liabilities						
Corporate entity borrowings						
- 6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	-	68	68	-	69	69
- AMP Notes 2 (first call 2018, maturity 2023) ¹	-	-	-	-	300	300
- AMP Notes 3 (first call 2023, maturity 2028) ²	-	251	251	-	-	-
- Syndicated loan facility ³	488	-	488	-	497	497
- Commercial paper	259	-	259	229	-	229
- Medium Term Notes ⁴	-	233	233	-	-	-
- Other	-	64	64	28	1	29
Borrowings within investment entities controlled by AMP						
Life statutory funds	79	302	381	89	508	597
Total interest-bearing liabilities	826	918	1,744	346	1,375	1,721

1 AMP Notes 2 were issued on 18 December 2013 and are listed on the ASX. AMP elected to redeem all of its AMP Notes 2 on the first optional redemption date on 18 December 2018.

2 Floating Rate Subordinated Unsecured Notes were issued on 15 November 2018 and mature 15 November 2028. AMP has the right but not the obligation, to redeem all or some of the Notes on 15 November 2023 or, subject to certain conditions, at a later date. In certain circumstances, AMP may be required to convert some or all of the Notes into AMP ordinary shares.

3 The facility was renegotiated effective 14 December 2017 and includes tranches of \$300m, \$300m and \$300m, maturing 22 March 2020, 22 March 2022 and 22 March 2023 respectively. As at 31 December 2018, \$500m was drawn. Subsequent to the year end, the outstanding balance was repaid out of existing cash resources and the facility was cancelled. Accordingly, the liability has been classified as current in the table above.

4 CHF110m and CHF50m Senior Unsecured Fixed Rate Bonds were issued on 19 June 2018 and 19 September 2018 respectively and mature 19 December 2022.

(b) Financing arrangements**Loan facilities and note programs**

In addition to the facilities arranged through bond and note issues, financing facilities are provided through bank loans under normal commercial terms and conditions.

	2018 \$m	2017 \$m
Available	17,678	16,245
Used	(4,627)	(3,520)
Unused facilities at the end of the year¹	13,051	12,725

1 Unused facilities at the end of the year includes the syndicated loan facility, which is comprised of three tranches of \$300m (\$900m total facility). As at 31 December 2018, \$500m was drawn and \$400m remained available. Subsequent to the year end, the outstanding balance was repaid out of existing cash resources and the facility was cancelled.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.2 Interest-bearing liabilities (continued)****(c) Changes in liabilities arising from financing activities**

	Interest bearing liabilities
	\$m
1 January 2018	1,721
Cashflow s	23
Other	-
31 December 2018	1,744

Accounting policy – recognition and measurement

Interest-bearing liabilities, other than those held by controlled entities of the AMP Life's statutory funds, are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Borrowings of certain controlled managed investment schemes of the AMP Life's statutory funds are measured at amortised cost for the purpose of determining the unit price of those schemes. All other borrowings of the controlled entities of the AMP Life's statutory funds are subsequently measured at fair value with movements recognised in the Consolidated income statement.

It is AMPGH's policy to hedge currency and interest rate risk arising on issued bonds and subordinated debt. When hedge accounting is applied, the carrying amounts of borrowings and subordinated debt are adjusted for changes in fair value for the period that the hedge relationship remains effective. Any changes in fair value for the period are recognised in the Consolidated income statement. In cash flow hedge relationships the borrowings are not revalued.

Finance costs include:

- (i) borrowing costs:
 - interest on bank overdrafts, borrowings and subordinated debt;
 - 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; and
- (iii) changes in the fair value of derivative hedges together with any change in the fair value of the hedged assets or liabilities that are designated and qualify as fair value hedges, foreign exchange gains and losses and other financing related amounts. Changes in fair value of derivatives in effective cash flow hedges are recognised in the cash flow hedge reserve. The accounting policy for derivatives is set out in note 3.4.

Borrowing costs are recognised as expenses when incurred.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.3 Financial risk management**

The AMP Limited Board has overall responsibility for the risk management framework including the approval of AMP's strategic plan, risk management strategy and risk appetite. Specifically, financial risk arises from the holding of financial instruments and financial risk management (FRM) is an integral part of the AMPGH group's enterprise risk management framework.

This note discloses financial risk in accordance with the categories in AASB 7 *Financial Instruments: Disclosures*:

- market risk;
- liquidity and refinancing risk; and
- credit risk.

These risks are managed in accordance with the board approved risk appetite statement and the individual policies for each risk category and business approved by the Chief Financial Officer (CFO) under delegation from the AMP Group Asset and Liability Committee (Group ALCO).

(a) Market risk

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 including interest rates, foreign exchange rates, equity prices, property prices, credit spreads, commodity prices, market volatilities and other financial market variables.

The following table provides information on significant market risk exposures for the AMPGH group, which could lead to an impact on the AMPGH group's profit after tax and equity, and the management of those exposures.

Market risk	Exposures	Management of exposures and use of derivatives
Interest rate risk The risk of an impact on the AMPGH group's profit after tax and equity arising from fluctuations of the fair value or future cash flows of financial instruments due to changes in market interest rates. Interest rate movements could result from changes in the absolute levels of interest rates, the shape of the yield curve, the margin between yield curves and the volatility of interest rates.	AMPGH group's long-term borrowings and subordinated debt. Interest-bearing investment assets of the shareholder and statutory funds of AMP Life.	Interest rate risk is managed by entering into floating-to-fixed interest rate swaps, which have the effect of converting borrowings from floating rate to fixed rate. AMP Life manages interest rate and other market risks pursuant to an asset and liability management policy and is also subject to the relevant regulatory requirements governed by the Life Act.
Currency risk The risk of an impact on the AMPGH group's profit after tax and equity arising from fluctuations of the fair value of a financial asset, liability or commitment due to changes in foreign exchange rates.	Foreign currency denominated assets and liabilities. Capital invested in overseas operations. Foreign exchange rate movements on specific cash flow transactions.	The AMPGH group uses swaps to hedge the interest rate risk and foreign currency risk on foreign currency denominated borrowings but does not hedge the capital invested in overseas operations. The AMPGH group hedges material foreign currency risk originated by receipts and payments once the value and timing of the expected cash flow is known excluding the international equities portfolio attributable to shareholders within the AMP Life Statutory Fund No. 1. Group Treasury executes foreign currency forwards on behalf of AMP Capital to hedge expected management fees income and operation costs outflows originated outside of Australia.
Equity price risk The risk of an impact on the AMPGH group's profit after tax and equity arising from fluctuations of the fair value or future cash flows of a financial instrument due to changes in equity prices.	Exposure for shareholders includes listed and unlisted shares and participation in equity unit trusts.	Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.3 Financial risk management (continued)****(a) Market risk (continued)****Sensitivity analysis**

The table below includes sensitivity analysis showing how the profit after tax and equity would have been impacted by changes in market risk variables. The analysis:

- shows the direct impact of a reasonably possible change in market rate and is not intended to illustrate a remote, worst case stress test scenario;
- assumes that all underlying exposures and related hedges are included and the change in variable occurs at the reporting date; and
- 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.

		2018		2017	
Sensitivity analysis	Change in variables	Impact on profit after tax Increase (decrease) \$m	Impact on equity ¹ Increase (decrease) \$m	Impact on profit after tax Increase (decrease) \$m	Impact on equity ¹ Increase (decrease) \$m
Interest rate risk	- 100bp	(14)	(14)	(3)	(3)
Impact of a 100 basis point (bp) change in Australian and international interest rates.	+100bp	2	2	(15)	(15)
Currency risk	10% depreciation of AUD	3	119	4	130
Impact of a 10% movement of exchange rates against the Australian dollar on currency sensitive monetary assets and liabilities.	10% appreciation of AUD	(4)	(99)	(5)	(107)
	10% increase in:				
Equity price risk	Australian equities	8	8	10	10
Impact of a 10% movement in Australian and international equities.	International equities	6	6	7	7
Any potential impact on fees from the AMPGH group's investment linked business in is not included.	10% decrease in:				
	Australian equities	(10)	(10)	(10)	(10)
	International equities	(8)	(8)	(9)	(9)

1 Included in the impact on equity 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.

(b) Liquidity and refinancing risk

Risk	Exposures	Management of exposures
Liquidity risk		
The risk that the AMPGH group is not able to meet its obligations as they fall due because of an inability to liquidate assets or obtain adequate funding when required.	AMPGH group corporate debt portfolio and AMP Capital through various investment funds, entities or mandates that AMPGH manages or controls within the AMPGH group.	Group Treasury maintains a defined surplus of cash to mitigate refinancing risk, satisfy regulatory requirements and protect against liquidity shocks in accordance with the liquidity risk management policy approved by the Group ALCO.
Refinancing risk		Financiers of loans lending to controlled entities of the life statutory funds do not have legal recourse beyond the operating subsidiary borrower and there is no direct effect on any other AMPGH group debt.
The risk that the AMPGH group is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.		

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.3 Financial risk management (continued)****(b) Liquidity and refinancing risk (continued)****Maturity analysis**

Below is a summary of the maturity profiles of the AMPGH group's undiscounted financial liabilities at the reporting date, based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

	Up to 1 year or no term \$m	1-5 years \$m	Over 5 years \$m	Not specified \$m	Total \$m
2018					
Non-derivative financial liabilities					
Payables	2,374	119	-	5	2,498
Borrowings	398	1,048	-	-	1,446
Subordinated debt	16	122	309	-	447
Investment contract liabilities ¹	372	1,021	1,092	66,466	68,951
External unitholders' liabilities	-	-	-	17,059	17,059
Derivative financial instruments					
Interest rate and cross currency swaps	8	23	-	-	31
Foreign currency forward contract	10	-	-	-	10
Total undiscounted financial liabilities²	3,178	2,333	1,401	83,530	90,442
2017					
Non-derivative financial liabilities					
Payables	2,246	4	15	98	2,363
Borrowings	693	646	29	-	1,368
Subordinated debt	19	129	339	-	487
Investment contract liabilities ¹	743	703	1,289	72,691	75,426
External unitholders' liabilities	-	-	-	14,468	14,468
Derivative financial instruments					
Interest rate and cross currency swaps	2	7	-	-	9
Total undiscounted financial liabilities²	3,703	1,489	1,672	87,257	94,121

1 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 these policyholders claimed their funds, there may be some delay in settling the liability as assets are liquidated; but the shareholder has no direct exposure to any liquidity risk. External unitholders' liabilities all relate to controlled entities of the AMP Life statutory funds and would only be paid when corresponding assets are realised.

2 Estimated net cash outflow profile of life insurance contract liabilities, disclosed in note 4.4(d), is excluded from the above table.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.3 Financial risk management (continued)****(c) Credit risk**

Credit risk management is decentralised in business units within the AMPGH group, with the exception of credit risk directly and indirectly impacting shareholder capital, which is measured and managed on an aggregate basis by Group Treasury at the AMPGH group level and reported to Group ALCO.

Risk	Exposures	Management of exposures and use of derivatives
Credit risk Credit default risk is the risk of financial or reputational loss due to a counterparty failing to meet their contractual commitments in full and on time.	Wholesale credit risk on the invested fixed income portfolios in the AMP Life's statutory funds.	Managed by the AMP Capital Risk and Compliance Committee and reported to the fund managers, within specified credit criteria in the mandate approved by the AMP Life Board.
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.	Wholesale credit risk, including portfolio construction, in the fixed income portfolios managed by AMP Capital.	Responsibility of the individual investment teams. There is also a dedicated credit research team and a specific credit investment committee. The investment risk and performance team provides reports to the AMP Capital Investment Committee.

The AMP Concentration and Credit Default Risk Policy sets out the assessment and determination of what constitutes credit concentration risk. The policy sets exposure limits based on each counterparty's credit rating (unless special considerations are defined). Additional limits are set for the distribution of the total portfolio by credit rating bands. Compliance with this policy is monitored and exposures and breaches are reported to portfolio managers, senior management and the AMP Board Risk Committee through periodic financial risk management reports.

Group Treasury also might enter into credit default swaps to hedge the concentration risk exposure against a specific issuer, or aggregated at the parent entity, when material exposures are over the authorised limit.

The exposures on interest-bearing securities and cash equivalents which impact the AMPGH group's capital position are managed by Group Treasury within limits set by the AMP Concentration and Credit Default Risk Policy.

Collateral and master netting or similar agreements

The AMPGH group obtains collateral and utilises netting agreements to mitigate credit risk exposures from certain counterparties.

(i) Derivative financial assets and liabilities

The credit risk of derivatives is managed in the context of the AMPGH group's overall credit risk policies and includes the use of Credit Support Annexes to derivative agreements which facilitate the bi-lateral posting of collateral.

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 automatically meet the criteria for offsetting in the Consolidated statement of financial position. This is because the AMPGH group, in most cases, does not have any current legally enforceable right to offset recognised amounts.

If these netting arrangements were applied to the derivative portfolio, the derivative assets of \$1,048m would be reduced by \$180m to the net amount of \$868m and derivative liabilities of \$1,201m would be reduced by \$180m to the net amount of \$1,021m (2017: derivative assets of \$1,071m would be reduced by \$171m to the net amount of \$900m and derivative liabilities of \$467m would be reduced by \$171m to the net amount of \$296m).

(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 AMP Life's statutory funds and controlled entities. As at 31 December 2018, if repurchase arrangements were netted, debt securities of \$32,577m would be reduced by \$9m to the net amount of \$32,568m and collateral deposits held of \$164m would be reduced by \$9m to the net amount of \$155m (2017: debt securities of \$32,457m would be reduced by \$8m to the net amount of \$32,449m and collateral deposits held of \$103m would be reduced by \$8m to the net amount of \$95m).

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.3 Financial risk management (continued)****(c) Credit risk (continued)**

(iii) Other collateral

The AMPGH group 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 2018 there was \$158m (2017:\$91m) of collateral deposits (due to other counterparties) and \$34m (2017: \$41m) of collateral loans (due from other counterparties) relating to derivative assets and liabilities.

3.4 Derivatives and hedge accounting

The AMPGH group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the AMPGH group uses derivative financial instruments such as cross-currency swaps and interest rate swaps. When the group designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, the hedges are classified as:

- Cash flow hedges;
- Fair value hedges; or
- Net investment hedges.

Derivative financial instruments are held for risk and asset management purposes only and not for the purpose of speculation. Not all derivatives held are designated as hedging instruments. The AMPGH group's risk management strategy and how it is applied to manage risk is explained further in note 3.3.

The following table sets out the notional amount of derivative instruments designated in a hedge relationship by relationship type as well as the related carrying amounts.

		Notional amount	Fair value Assets	Fair value Liabilities
		\$m	\$m	\$m
2018				
Hedge type	Hedging instrument			
Fair value	Cross-currency sw aps	147	-	22
Fair value	Interest rate sw aps	127	9	-
Fair value and cash flow	Cross-currency sw aps	305	3	-
Net investment	Foreign currency forw ard contract	343	-	7
Total		922	12	29
		Notional amount	Fair value Assets	Fair value Liabilities
		\$m	\$m	\$m
2017				
Hedge type	Hedging instrument			
Fair value	Cross-currency sw aps	145	-	25
Fair value	Interest rate sw aps	123	11	-
Net investment	Foreign currency forw ard contract	376	4	1
Total		644	15	26

Derivative instruments accounted for as cash flow hedges

The AMPGH group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at fixed and variable rates. The AMPGH group uses interest rate swaps to manage interest rate risks and many of the swaps are cash flow hedges for accounting purposes.

Methods used to test hedge effectiveness and establish the hedge ratio include regression analysis, and for some portfolio hedge relationships, a comparison to ensure the expected interest cash flows from the portfolio exceed those of the hedging instruments. The main potential source of hedge ineffectiveness from cash flow hedges is mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset.

During the year the AMPGH group recognised \$nil (2017: \$nil) due to ineffectiveness on derivative instruments designated as cash flow hedges.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.4 Derivatives and hedge accounting (continued)***Derivative instruments accounted for as fair value hedges*

Fair value hedges are used to protect against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates.

Hedge effectiveness is assessed by comparing the overall changes in the fair value of the hedging instrument against the changes in the fair value of the hedged items attributable to the hedged risks. The main potential source of ineffectiveness on fair value hedges is currency basis spread, which is included in the valuation of the hedging instrument, but excluded from the value of the hedged item.

During the year the AMPGH group recognised net gains of \$7m (2017: \$1m) due to ineffectiveness on derivative instruments designated as fair value hedges.

Hedges of net investments in foreign operations

The AMPGH group hedges its exposure to changes in exchange rates on the value of its foreign currency denominated seed pool investments. Hedge effectiveness is assessed based on the overall changes in the fair value of the forward contract, primarily using the cumulative dollar offset method.

The AMPGH group recognised a profit of \$nil (2017: \$nil) due to the ineffective portion of hedges relating to investments in seed pool foreign operations.

The following table sets out the maturity profile of the notional amount of derivative instruments in a hedge relationship.

	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2018	\$m	\$m	\$m	\$m	\$m
Interest rate sw aps	-	-	127	-	127
Cross-currency sw aps	-	-	452	-	452
Foreign currency forw ard contract	327	16	-	-	343

	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2017	\$m	\$m	\$m	\$m	\$m
Interest rate sw aps	-	-	123	-	123
Cross-currency sw aps	-	-	145	-	145
Foreign currency forw ard contract	358	18	-	-	376

Accounting policy – recognition and measurement**Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value exclusive of any transaction costs on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. All derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from the change in fair value of derivatives, except those that qualify as effective cash flow hedges, are immediately recognised in the Consolidated income statement.

Hedge accounting*Cash flow hedges*

The effective portion of changes in the fair value of cash flow hedges is recognised (including related tax impacts) through Other comprehensive income in the Cash flow hedge reserve in equity. The ineffective portion is recognised immediately in the Consolidated income statement. The balance of the Cash flow hedge reserve in relation to each particular hedge is transferred to the Consolidated income statement in the period when the hedged item affects profit or loss. Hedge accounting is discontinued when a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated income statement.

Fair value hedges

Changes in the fair value of fair value hedges are recognised in the Consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If a hedge no longer meets the criteria for hedge accounting, the cumulative gains and losses recognised on the hedged item will be amortised over the remaining life of the hedged item.

Net investment hedges

The effective portion of changes in the fair value of net investment hedges is recognised (including related tax impacts) through Other comprehensive income in the Hedge of net investment reserve in equity. Any ineffective portion is recognised immediately in the Consolidated income statement. The cumulative gain or loss existing in equity remains in equity until the foreign investment is disposed.

Notes to the financial statements

for the year ended 31 December 2018

Section 3: Capital structure and financial risk management**3.5 Capital management**

AMPGH holds capital to protect customers, creditors and shareholders against unexpected losses. There are a number of ways AMP assesses the adequacy of its capital position. Primarily, AMP aims to:

- maintain a sufficient surplus above minimum regulatory capital requirements (MRR) to reduce the risk of breaching MRR;
- hold sufficient liquidity to ensure that AMP has sufficient access to liquid funds, even under stress situations; and
- maintain the AMP group's credit rating.

These factors are balanced when forming AMP's risk appetite as approved by the AMP Limited Board.

Capital requirements

A number of the operating entities within the AMPGH group of companies are regulated and are required to meet minimum regulatory capital requirements (MRR). The main minimum regulatory capital requirements for AMP's businesses are:

Operating entity	Minimum regulatory capital requirement
AMP Life Limited	Capital adequacy requirements as specified under the APRA Life Insurance Prudential Standards
AMP Superannuation Limited and National Mutual Superannuation Pty Limited	Operational Risk Financial Requirements as specified under the APRA Superannuation Prudential Standards
AMP Capital Investors Limited and other ASIC regulated businesses	Capital requirements under AFSL requirements and for risks relating to North guarantees.

All of the AMPGH group regulated entities have at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject.

Section 4: Life insurance and investment contracts

This section explains how AMPGH's liabilities in respect of life insurance and investment contracts are measured, including the methodologies and key assumptions that are applied. It also details the key components of the profits that are recognised in respect of life insurance contracts and the sensitivity of those profits to variations in assumptions.

- 4.1 Accounting for life insurance and investment contracts
- 4.2 Life insurance contracts - premiums, claims, expenses and liabilities
- 4.3 Life insurance contracts - assumptions and valuation methodology
- 4.4 Life insurance contracts - risk
- 4.5 Other disclosure - life insurance and investment contracts

4.1 Accounting for life insurance and investment contracts

Prior to January 1 2017 the AMP group's life insurance related activities were conducted through two registered life insurance companies, AMP Life Limited (AMP Life) and the National Mutual Life Association of Australasia Limited (NMLA), collectively, 'the AMP life insurance entities'. On 1 January 2017, the Australian and New Zealand life insurance business of NMLA was transferred to AMP Life, both wholly-owned controlled entities of the AMP group, pursuant to a scheme under part 9 of the Life Insurance Act 1995. This represents the substantial majority of operations of NMLA up to 31 December 2016. Because NMLA and AMP Life are both wholly-owned subsidiaries within the AMP group, there was no impact on profit and loss from the transfer transaction.

The two major contract classifications 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 investment contracts of AMP Life relate 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. Fees and other charges are passed to the shareholder and reported as revenue.

The liability to policyholders, other than for fixed retirement income policies, is linked to the performance and value of the assets that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets. For fixed retirement income policies, the liability is linked to the fair value of the fixed retirement income payments and associated management services element.

The fair value of the fixed retirement income payments is calculated as 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.

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 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. Such contracts are defined as life insurance contracts and accounted for using 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 Consolidated 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 investment 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 depend 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.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts

4.1 Accounting for life insurance and investment contracts (continued)

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* (Cth) (Life Act) and the Participating Business Management Framework.

Once profit is allocated to participating policyholders it can only be distributed to these policyholders.

Profit allocated to participating policyholders is recognised in the Consolidated income statement as an increase in policy liabilities. The policy liabilities include profit that has not yet been allocated to specific policyholders (ie unvested) and that which has been allocated to specific policyholders by way of bonus distributions (ie vested).

Bonus distributions to participating policyholders do not alter the amount of profit attributable to shareholders. They change the nature of the liability from unvested to vested.

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 shareholders in proportion to the balances of policyholders' and shareholders' retained earnings. This proportion is, mostly, 80% to policyholders and 20% to shareholders;
- (ii) other MoS profits arising from discretionary participating business are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
 - the profit arising from New Zealand corporate superannuation business is apportioned such that shareholders are allocated 15% of the profit allocated to policyholders;
 - the profit arising in respect of Australian preservation superannuation account business is allocated 92.5% to policyholders and 7.5% to shareholders;
 - the profits arising from discretionary participating investment account business where 100% of investment profit is allocated to policyholders and 100% of any other profit or loss is allocated to shareholders, with the over-riding provision being that at least 80% of any profit and not more than 80% of any loss be allocated to policyholders' retained profits of the relevant statutory fund; and
 - the underwriting profit arising in respect of participating Business Super risk business is allocated 90% to policyholders and 10% to shareholders.

Allocation of expenses within the life insurance entity's 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/or product line as appropriate.

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

The costs apportioned to life insurance contracts are included in the determination of the margin described in note 4.1.

Investment management expenses of the life statutory funds are classified as operating expenses.

Reinsurance

Life insurance contract premium ceded to reinsurers is recognised as an expense and Life insurance contract claims recovered from reinsurers is recognised as income.

Upfront commission received on quota share reinsurance contracts is recognised as commission revenue and a corresponding reinsurance liability is recognised representing the obligation to pay future premiums to the reinsurer. The establishment of the reinsurance liability is reflected in Change in policyholder liabilities. The liability will be released in line with the release of the profit margin on the underlying insurance contracts.

Changes in the reinsurance asset and the reinsurance liability during the period are recognised as Changes in policyholder liabilities. On-going commission from reinsurers is recognised as revenue at the time the commission is received or receivable.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts

4.1 Accounting for life insurance and investment contracts (continued)

Critical accounting judgements and estimates

Life insurance contract liabilities

The measurement of insurance contract liabilities is determined using the MoS methodology. The determination of the liability amounts involves judgement in selecting the valuation methods, profit carriers and valuation assumptions for each type of business. 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.

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 and the North capital guarantee, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.2 Life insurance contracts – premiums, claims, expenses and liabilities**

	2018 \$m	2017 \$m
(a) Analysis of life insurance contract related revenue - net of reinsurance		
Total life insurance contract premiums received and receivable	2,549	2,696
Less: component recognised as a change in life insurance contract liabilities	(367)	(402)
Life insurance contract premium revenue ¹	2,182	2,294
Commission received from reinsurers	471	703
Life insurance contract related revenue	2,653	2,997
Life insurance contract premium ceded to reinsurers	(989)	(635)
Life insurance contract related revenue - net of reinsurance	1,664	2,362
(b) Analysis of life insurance contract claims expenses - net of reinsurance		
Total life insurance contract claims paid and payable	(3,412)	(3,192)
Less: component recognised as a change in life insurance contract liabilities	1,158	1,146
Life insurance contract claims expense	(2,254)	(2,046)
Life insurance claims recovered from reinsurers	487	234
Life insurance contract claims expenses - net of reinsurance	(1,767)	(1,812)
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- commission	(27)	(41)
- other expenses	(115)	(130)
Life insurance contract maintenance expenses		
- commission	(172)	(178)
- other expenses	(408)	(404)
Investment management expenses	(53)	(55)

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

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.2 Life insurance contracts - premiums, claims, expenses and liabilities (continued)**

	2018 \$m	2017 \$m
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
<i>Best estimate liability</i>		
- value of future life insurance contract benefits	14,469	15,007
- value of future expenses	4,377	4,616
- value of future premiums	(10,435)	(12,078)
<i>Value of future profits</i>		
- life insurance contract holder bonuses	3,136	3,354
- shareholders' profit margins	1,565	2,183
Total life insurance contract liabilities determined using the projection method¹	13,112	13,082
Life insurance contract liabilities determined using accumulation method		
<i>Best estimate liability</i>		
- value of future life insurance contract benefits	7,951	8,703
- value of future acquisition expenses	(50)	(58)
Total life insurance contract liabilities determined using the accumulation method	7,901	8,645
Value of declared bonus	304	290
Unvested policyholder benefits liabilities¹	2,319	2,312
Total life insurance contract liabilities net of reinsurance	23,636	24,329
Reinsurance asset- ceded life insurance contracts	1,073	804
Reinsurance liability - ceded life insurance contracts ²	(1,452)	(1,450)
Total life insurance contract liabilities gross of reinsurance	23,257	23,683

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.

2 Reinsurance liability - ceded life insurance contracts reflects the present value of the net obligation to transfer cash flows under the 60% quota share reinsurance arrangement with Gen Re, Munich Re and Swiss Re, in return for upfront commission received. It also reflects the reinsurance position of the surplus reinsurance arrangement with Gen Re and Swiss Re.

	2018 \$m	2017 \$m
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	23,683	24,225
Change in life insurance contract liabilities recognised in the Consolidated income statement	(79)	1,069
Premiums recognised as an increase in life insurance contract liabilities	367	402
Claims recognised as a decrease in life insurance contract liabilities	(1,158)	(1,146)
Change in reinsurance asset - ceded life insurance contracts	269	258
Change in reinsurance liability - ceded life insurance contracts	(2)	(920)
Foreign exchange adjustment	177	(205)
Total life insurance contract liabilities at the end of the year	23,257	23,683

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology**

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of MoS described in note 4.1. The key assumptions and methods used in the calculation of life insurance contract liabilities are outlined below.

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
Participating allocated annuities	Modified accumulation	n/a
Life annuities	Projection	Annuity payments

(a) 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	Basis¹	31 December 2018		31 December 2017	
		Australia	New Zealand	Australia	New Zealand
		%	%	%	%
Retail risk (other than income benefit open claims) ¹	Zero coupon government bond yield curve	1.8 - 3.0	1.7 - 3.0	1.8 - 3.6	1.8 - 3.6
Retail risk and group risk (income benefit open claims) ¹	Zero coupon government bond yield curve (including liquidity premium)	2.1 - 3.2	2.0 - 3.3	2.0 - 3.7	2.0 - 3.8
Life annuities	Non-CPI Zero coupon government bond yield curve (including liquidity premium)	2.2 - 3.3	2.0 - 3.4	2.1 - 3.8	2.0 - 3.9
	CPI Commonwealth indexed bond yield curve (including liquidity premium)	0.8 - 1.3	1.1 - 2.3	0.5 - 1.2	0.7 - 2.4

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

(b) 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 (c) below. These expenses include fees charged to the life statutory funds by service companies in the AMPGH 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.

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology (continued)

(c) Inflation and indexation

Benefits and premiums of 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. The annual future CPI rates are largely derived from the difference between long-term government bonds and indexed government bonds.

The expense inflation assumptions have been set based on the inflation rates, recent expense performance, AMP Life's current plans and the terms of the relevant service company agreement, as appropriate. In addition, higher expense inflation has been assumed for Australia and New Zealand wealth protection portfolios compared to that assumed at 31 December 2017. The higher expense inflation assumption adopted due to the announcement of the transition to in-force specialist life insurer reflects an expectation that costs are not fully variable and will decrease more slowly than the run-off of policies.

The assumed CPI and expense inflation rates at the valuation date are:

	Australia		New Zealand	
	CPI	% Expense Inflation	CPI	% Expense Inflation
31 December 2018	1.6	3.0 - 8.0	1.7	2.0 - 6.0
31 December 2017	1.9	3.0	1.7	2.0

(d) Bases of taxation

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

(e) 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 factors like duration, premium structure, smoker status, age attained or short-term market and business effects etc. 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 of the major classes of life insurance contracts have been reviewed. Discontinuance assumptions were changed from those assumed at 31 December 2017 for Australian and New Zealand retail risk and conventional portfolios, as shown in the following table.

Note that the wealth protection discontinuance rate ranges are calculated based on current business mix and various assumption rating factors. Discontinuance rate ranges for conventional products (Australia and New Zealand) are calculated based on average expected lapse rates for the next five years.

Business type	31 December 2018		31 December 2017	
	Australia	New Zealand	Australia	New Zealand
	%	%	%	%
Conventional	2.3 - 9.3	1.5 - 2.7	2.4 - 8.4	1.5 - 2.8
Retail risk (lump sum)	13.1 - 18.0	4.9 - 15.2	12.8 - 16.9	11.6 - 12.0
Retail risk (income benefit)	7.5 - 20.1	5.0 - 14.7	8.1 - 18.8	9.5 - 11.4
Flexible Lifetime Super (FLS) risk business	14.4 - 16.6	n/a	14.0 - 16.4	n/a
Investment account	n/a	n/a	n/a	n/a

(f) 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.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)****(g) Mortality and morbidity**

Standard mortality and morbidity tables, based on national or industry wide data, are used.

The following assumptions have changed from those assumed at 31 December 2017:

- Australian retail income protection incidence and termination rates;
- Australian and New Zealand retail trauma and TPD;
- New Zealand mortality; and
- Australian conventional.

Some refinements were made to the current methodology for retail income protection and TPD to include additional product factors. The 2017 rates were revised to reflect this change.

The assumptions are summarised in the following table.

Conventional	Conventional - % of IA95-97	
	Male	Female
31 December 2018		
Australia	60.8	60.8
New Zealand	73.0	73.0
31 December 2017		
Australia	67.5	67.5
New Zealand	73.0	73.0

Risk products	Retail Lump Sum - % of table	
	Male	Female
31 December 2018		
Australia ¹	94 - 148	94 - 148
New Zealand	104 - 120	86 - 98
31 December 2017		
Australia ¹	94 - 148	94 - 148
New Zealand	100 - 120	82 - 98

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

Annuities	Male - % of IML00*	Female - % of IFL00*
31 December 2018		
Australia and New Zealand ¹	95.0	80.0
31 December 2017		
Australia and New Zealand ¹	95.0	80.0

1 Annuities tables modified for future mortality improvements.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)****(g) Mortality and morbidity (continued)**

Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates % of ADI 07-11	Termination rates (ultimate) % of ADI 07-11
31 December 2018		
Australia	45 - 179	53 - 80
31 December 2017		
Australia	45 - 179	65 - 93
Income protection	Incidence rates % of ADI 07-11	Termination rates (ultimate) % of ADI 07-11
31 December 2018		
New Zealand	83 - 149	82 - 105
31 December 2017		
New Zealand	83 - 149	82 - 105
Retail lump sum	Male % of IA04-08	Female % of IA04-08
31 December 2018		
Australia TPD ¹	132 - 241	150 - 305
Australia Trauma ²	102 - 193	102 - 193
New Zealand TPD ¹	120	120
New Zealand Trauma ²	110 - 114	110 - 114
31 December 2017		
Australia TPD ¹	132 - 185	150 - 235
Australia Trauma ²	102 - 168	102 - 168
New Zealand TPD ¹	150 - 194	190 - 194
New Zealand Trauma ²	101 - 114	101 - 114

1 Base IA04-08 TPD table modified based on our aggregated experience but with overall product specific adjustment factors.

2 Base IA04-08 Trauma table modified based on our aggregated experience but with overall product specific adjustment factors.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)****(g) Mortality and morbidity (continued)**

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995–1997. The table has been modified to allow for future mortality improvement.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Institute and 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 Life experience.
IA04-08 DTH	This was published by the Institute of Actuaries of Australia under the name <i>A graduation of the 2004-2008 Lump Sum Investigation Data</i> . The table has been modified based on aggregated experience with overall product specific adjustment factors.
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.
ADI 07-11	A disability table developed by KPMG at the request of the Financial Services Council (FSC) based on Australian disability income experience for the period 2007-2011. This table has been modified for AMP Life with overall product specific adjustment factors.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)****(h) Other participating business assumptions**

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 in the following table.

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 and Infrastructure	Fixed interest	Cash
	%	%	%	%	%	%
31 December 2018						
Australia	2.3	4.5	3.5	2.5	0.6	(0.5)
New Zealand	2.4	4.5	3.5	2.5	0.5	(0.5)
31 December 2017						
Australia	2.6	4.5	3.5	2.5	0.5	(0.5)
New Zealand	2.8	4.5	3.5	2.5	0.4	(0.5)

The risk premiums for local equities include allowance for imputation credits. The risk premiums for fixed interest reflect 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 for each life company. 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 ¹	Equities	Property and Infrastructure	Fixed interest	Cash
	%	%	%	%
31 December 2018				
Australia	28	14	39	19
New Zealand	35	17	38	10
31 December 2017				
Australia	26	13	39	22
New Zealand	34	17	41	8

¹ The asset mix includes both conventional and investment account business. As described in note 4.1, 100% of investment profits on discretionary participating investment account business is allocated to policyholders.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)****(h) Other participating business assumptions (continued)**

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.

For participating business, the total value of future bonuses (and the associated shareholders' profit margins) 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 margins assumed to emerge in each future year depends on the assumed relationship between reversionary bonuses (or interest credits) and terminal bonuses. This relationship is set to reflect the philosophy underlying actual bonus declarations.

Actual bonus declarations are determined to reflect, over time, the investment returns of the particular fund and other factors in the emerging experience and management of the business. These factors include:

- allowance for an appropriate degree of benefit smoothing;
- reasonable expectations of policyholders;
- equity between generations of policyholders applied across different classes and types of business; and
- ongoing 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 for AMP Life (31 December 2017 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
	%	%
Australia	0.4 - 1.0 (0.4 - 1.0)	0.8 - 1.5 (0.8 - 1.5)
New Zealand	0.7 - 1.0 (0.7 - 1.0)	0.7 - 1.1 (0.7 - 1.1)

Terminal bonus

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

Crediting rates (investment account)	%
Australia	0.6 - 3.3 (0.8 - 4.5)
New Zealand	1.7 - 2.3 (2.7 - 5.8)

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)****(i) Impact of changes in assumptions**

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

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

The impact on future profit margins of actual changes in assumptions from 31 December 2017 to 31 December 2018 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	Change in life insurance contract liabilities ²	Change in shareholders' profit & equity ³
	\$m	\$m	\$m
Non-market related changes to discount rates	3	-	-
Mortality and morbidity	(122)	169	(118)
Discontinuance rates	(170)	22	(15)
Maintenance expenses	(75)	26	(18)
Other assumptions ¹	(116)	(3)	2

1 Other assumption changes include the impact of modelling, reinsurance, product and premium changes.

2 Change in life insurance contract liabilities is net of reinsurance, gross of tax.

3 Change in shareholders' profit and equity is net of reinsurance, net of tax.

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 result in negative future profit margins, this negative balance for all forecasted future periods 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.

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk

(a) Life insurance risk

AMP Life issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured, often in conjunction with the provision of wealth management products.

The products carrying insurance risk are designed 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. The variability inherent in insurance risk, including concentration risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are generally underwritten individually on their merits. Individual policies which are transferred from a group scheme are generally issued without underwriting. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

Claims are managed through a dedicated claims management team, with formal claims acceptance limits and appropriate training and development of staff with an objective 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 reinsure (cede) to reinsurance companies a proportion of their 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;
- reduce overall exposure to risk; and
- reduce the amount of capital required to support the business.

The reinsurance companies are regulated by the Australian Prudential Regulation Authority (APRA), or industry regulators in other jurisdictions, and have strong credit ratings from A+ to AA+.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.4 Life insurance contracts - risk (continued)****(b) Key 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.

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)</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 the discretion of AMP Life for the portfolio as a whole.	Benefits are defined by the insurance contract and are not directly affected by the investment performance of any underlying assets.	Mortality, morbidity, lapses, expenses and investment market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	These policies provide a guaranteed regular income for the life of the insured in exchange for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy allowing for any indexation.	Longevity, expenses, inflation and investment market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	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. Bonuses are added annually, which once added are guaranteed. A further 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.	Investment market earning rates on assets backing the liabilities, 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 investment 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 investment market earning rates on the assets backing the liabilities.

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.4 Life insurance contracts - risk (continued)****(c) 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, unless the product is in or close to loss recognition.

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

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
Mortality	10% increase in mortality rates	130	51	(92)	(36)
Annuitant mortality	50% increase in the rate of mortality improvement	5	5	(4)	(4)
Morbidity - lump sum disablement	20% increase in lump sum disablement rates	234	93	(164)	(66)
Morbidity - disability income	10% increase in incidence rates	215	88	(151)	(62)
Morbidity - disability income	10% decrease in termination rates	373	169	(261)	(118)
Discontinuance rates	10% increase in discontinuance rates	186	67	(132)	(48)
Maintenance expenses	10% increase in maintenance expenses	40	40	(28)	(28)

(d) 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	1-5 years \$m	Over 5 years \$m	Total \$m
2018	1,264	3,039	8,243	12,546
2017	1,463	3,456	8,796	13,715

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance and investment contracts**

	2018 \$m	2017 \$m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- planned margins of revenues over expenses released	437	478
- losses arising from difference between actual and assumed experience	(86)	(13)
- losses arising from changes in assumptions	(29)	(70)
- (losses) capitalised reversals	(174)	12
Profit related to life insurance and investment contract liabilities	148	407
Attributable to:		
- life insurance contracts	(31)	217
- investment contracts	179	190
Profit related to life insurance and investment contract liabilities	148	407
Investment earnings on assets in excess of life insurance and investment contract liabilities	38	107

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance and investment contracts (continued)

(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.

AMP Life has three statutory funds as set out below:

No. 1 fund	Australia	All business (whole of life, endowment, investment account, retail and group risk and immediate annuities) and North longevity guarantee.
	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.

Further details about capital management are provided in note 3.5.

	2018			2017		
	Non-investment linked \$m	Investment-linked \$m	Total statutory funds \$m	Non-investment linked \$m	Investment-linked \$m	Total statutory funds \$m
Net assets of statutory funds attributable to policyholders and shareholders	27,324	66,659	93,983	28,133	72,884	101,017
Attributable to policyholders²						
Life insurance contract liabilities	23,257	-	23,257	23,683	-	23,683
Investment contract liabilities ¹	2,173	66,454	68,627	2,464	72,690	75,154
	25,430	66,454	91,884	26,147	72,690	98,837
Attributable to shareholders	1,894	205	2,099	1,986	194	2,180

1 Investment contract liabilities in this table do not include \$115m (2017: \$81m) being the investment contract liability for the North capital guarantee which is held outside the life insurance entities.

2 Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately \$13,679m (2017: \$14,266m) of policy liabilities may be settled within 12 months of the reporting date.

The net assets of life statutory funds attributable to shareholders represent the interests of shareholders including funds required to meet regulatory requirements as well as further amounts of shareholder funds in excess of regulatory requirements.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance and investment contracts (continued)

(b) Restrictions on assets in statutory funds (continued)

The following table shows a summary of the consolidated balances of AMP Life insurance entities' statutory funds and the entities controlled by AMP Life insurance entities' statutory funds.

Income statement	Life entities' statutory funds consolidated	
	2018 \$m	2017 \$m
Life insurance contract related revenue - net of reinsurance	1,664	2,362
Fee revenue	1,030	1,087
Other revenue	4	8
Investment gains and losses	1,067	11,277
Life insurance contract claims expenses - net of reinsurance	(1,767)	(1,812)
Operating expenses including finance costs	(1,941)	(1,904)
Movement in external unitholders' liabilities	(360)	(1,615)
Change in policy holder liabilities		
- Life insurance contract liabilities	79	(1,069)
- Investment contract liabilities	89	(7,159)
Income tax expense	323	(666)
Profit for the year	188	509
Assets		
Cash and cash equivalents	7,218	6,206
Investments in financial assets measured at fair value through profit or loss	102,929	110,540
Investment property	145	134
Other assets	8,027	5,682
Total assets of policyholders, shareholders and non-controlling interests	118,319	122,562
Liabilities		
Life insurance contract liabilities	23,257	23,683
Investment contract liabilities	68,627	75,154
Other liabilities	6,306	6,624
External unitholders' liabilities	17,837	14,911
Total liabilities of policyholders, shareholders and non-controlling interests	116,027	120,372
Net assets	2,292	2,190

Notes to the financial statements

for the year ended 31 December 2018

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance and investment contracts (continued)****(c) Capital guarantees**

	2018 \$m	2017 \$m
Life insurance contracts with a discretionary participating feature - amount of the liabilities that relate to guarantees	14,152	14,759
Investment-linked contracts - amount of the liabilities subject to investment performance guarantees	847	878
Other life insurance contracts with a guaranteed termination value - current termination value	127	152

(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. These reserving requirements are specified by the APRA prudential capital standards. The standards are 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.

In addition to the regulatory capital requirements, AMP Life maintains a target surplus providing an additional capital buffer against adverse events. AMP Life uses internal capital models to determine 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 Appointed Actuary of AMP Life has confirmed that the capital base of each life statutory fund and shareholders' fund have exceeded PCA at all times during 2018 and 2017. The combined capital position of AMP Life and NMLA is as follows:

	2018 \$m	2017 \$m
Common Equity Tier 1 Capital	2,430	3,529
Adjustments to Common Equity Tier 1 Capital	(374)	(803)
Additional Tier 1 Capital	305	305
Adjustments to Additional Tier 1 Capital	-	-
Tier 2 Capital	250	300
Adjustments to Tier 2 Capital	-	-
Total capital base	2,611	3,331
Total Prescribed Capital Amount (PCA)	1,190	1,228
Capital adequacy amount	1,421	2,103
Capital adequacy multiple¹	219%	271%

¹ The capital adequacy multiples were 219% and 226% for AMP Life and NMLA respectively (2017: 272% and 218%).

(e) Actuarial information

Mr Greg Bird, 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 note 4.2 to note 4.5.

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), capital base and prescribed capital amounts have been determined at the reporting date in accordance with the Life Act.

Section 5: Employee disclosures

This section provides details on the various programs the AMPGH group uses to reward and recognise employees, including key management personnel.

- 5.1 Key management personnel
- 5.2 Defined benefit plans
- 5.3 Share-based payments

5.1 Key management personnel

(a) Compensation of key management personnel

	2018	2017
	\$000	\$000
Short-term benefits	2,177	2,873
Post-employment benefits	69	83
Share-based payments	1,135	1,121
Other long-term benefits	33	46
Termination benefits	-	350
Total	3,414	4,474

(b) Loans to key management personnel

Loans to key management personnel and their related parties are provided by AMP Bank and are on similar terms and conditions generally available to other employees within the group. No guarantees are given or received in relation to these loans. Loans have currently been made to two key management personnel and their related parties. Details of these loans are:

	2018	2017
	\$'000	\$'000
Balance as at the beginning of the year	2,402	2,463
Net advances	(38)	(61)
Balance as at the end of the year	2,364	2,402
Interest charged	78	80

(c) Key management personnel access to AMP's products

During the year, key management personnel and their personally related entities may also have had access to the following AMP products. They are provided to key management personnel within normal employee terms and conditions. The products include personal banking with AMP Bank Limited, the purchase of AMP insurance and investment products and financial investment services.

Information about such transactions does not have the potential to adversely affect decisions about the allocation of scarce resources made by users of this financial report, or the discharge of accountability by the specified executives or specified directors.

(d) Transactions with related parties

Some of the non-executive directors hold directorships or positions in other companies or organisations. From time to time, the AMPGH group may provide or receive services from these companies or organisations on arm's length terms. None of the non-executive directors were, or are, involved in any procurement or board decision making regarding the companies or organisations with which they have an association.

Accounting policy – recognition and measurement

Short-term benefits - Liabilities arising in respect of salaries and wages and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts.

Post-employment benefits - Defined contribution funds - The contributions paid and payable by AMP group to defined contributions funds are recognised in the Consolidated income statement as an operating expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments – refer to note 5.3.

Other long-term benefits - 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 are determined with reference to market yields at the end of the reporting period on high quality corporate bonds or, in countries where there is no deep market in such bonds, by using market yields at the end of the period on government bonds.

Section 5: Employee disclosures

5.2 Defined benefit plans

AMPGH contributed to defined benefit plans which provide benefits to employees, and their dependants, on resignation, retirement, disability or death of the employee. The benefits are based on years of service and an average salary calculation. All defined benefit plans are now closed to new members.

The characteristics and risks associated with each of the defined benefit plans are described below:

Plan details	Australia	New Zealand
Plan names	AMP Australia and AMP AAPH Australia defined benefit plans	AMP New Zealand and AMP AAPH New Zealand defined benefit plans
Entitlements of active members	A lump sum or pension on retirement. Pensions provided are lifetime indexed pensions with a reversionary spouse pension.	Accumulation benefits and a lump sum payment on retirement.
Governance of the plans	The trustees of the AMP Superannuation Savings Trust, of which the Australian plans are sub-funds – this includes administration of the plan, management and investment of the plan assets, and compliance with superannuation laws and other applicable regulations.	The plan's trustees - this includes administration of the plan, management and investment of the plan assets, and looking after the interests of all beneficiaries.
Valuations required	Every year	Every three years
Key risks	The risk of actual outcomes being different to the actuarial assumptions used to estimate the defined benefit obligation, investment risk and legislative risk.	
Date of valuation	31 March 2018	31 December 2017
Additional contributions required	Approximately 13.2% of member's salaries plus plan expenses.	No additional contributions are required until 30 June 2021, at which point the requirement will be reassessed.

(a) Defined benefit liability

	2018 \$m	2017 \$m
Present value of wholly-funded defined benefit obligations	(833)	(821)
Less: Fair value of plan assets	756	792
Defined benefit liability recognised in the Consolidated statement of financial position	(77)	(29)

Movement in defined benefit liability

Deficit at the beginning of the year	(29)	(44)
Plus: Total expenses recognised in income	(7)	(2)
Plus: Employer contributions	2	10
Plus: Actuarial gains recognised in Other comprehensive income ¹	(43)	7
Defined benefit liability recognised at the end of the year	(77)	(29)

1 The cumulative net actuarial gains and losses recognised in the Statement of comprehensive income is a \$116m gain (2017: \$159m gain).

(b) Reconciliation of the movement in the defined benefit liability

	Defined benefit obligation		Fair value of plan assets	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Balance at the beginning of the year	(821)	(804)	792	760
Current service cost	(3)	(3)	-	-
Interest (cost) income	(18)	(18)	17	18
Net actuarial gains and losses	(38)	(55)	(5)	62
Employer contributions	-	-	2	10
Contributions by plan participants	-	(1)	-	1
Foreign currency exchange rate changes	(5)	8	2	(7)
Benefits paid	52	52	(52)	(52)
Balance at the end of the year	(833)	(821)	756	792

Notes to the financial statements

for the year ended 31 December 2018

Section 5: Employee disclosures**5.2 Defined benefit plans (continued)****(c) Analysis of defined benefit surplus (deficit) by plan**

	Fair value of plan assets		Present value of plan obligation		Net recognised surplus (deficit)		Actuarial gains	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
AMP Australia	263	279	(307)	(307)	(44)	(28)	(15)	8
AMP AAPH Australia	388	403	(378)	(373)	10	30	(20)	2
AMP New Zealand	19	20	(25)	(24)	(6)	(4)	(2)	-
AMP AAPH New Zealand	86	90	(123)	(117)	(37)	(27)	(6)	(3)
Total	756	792	(833)	(821)	(77)	(29)	(43)	7

(d) Principal actuarial assumptions

The following table sets out the principal actuarial assumptions used as at the reporting date in measuring the defined benefit obligations of the Australian and New Zealand defined benefit funds:

	AMP				AMP AAPH			
	Australia		New Zealand		Australia		New Zealand	
	2018	2017	2018	2017	2018	2017	2018	2017
	%	%	%	%	%	%	%	%
Weighted average discount rate	4.1	4.5	2.3	2.8	4.2	4.6	2.7	3.3
Expected rate of salary increases	n/a	n/a	n/a	n/a	3.5	3.5	3.0	4.0

(e) Allocation of assets

The asset allocations of the defined benefit funds are shown in the following table:

	AMP				AMP AAPH			
	Australia		New Zealand		Australia		New Zealand	
	2018	2017	2018	2017	2018	2017	2018	2017
	%	%	%	%	%	%	%	%
Equity	50	51	38	38	30	31	40	40
Fixed interest	34	31	38	38	51	42	39	39
Property	8	10	4	4	5	5	4	4
Cash	5	4	14	14	13	14	14	14
Other	3	4	6	6	1	8	3	3

Section 5: Employee disclosures

5.2 Defined benefit plans (continued)

(f) Sensitivity analysis

The defined benefit obligation has been recalculated for each scenario by changing only the specified assumption as outlined below, whilst retaining all other assumptions as per the base case. The table below shows the increase (decrease) for each assumption change. Where an assumption is not material to the fund it has been marked as n/a.

2018	AMP				AMP AAPH			
	Australia		New Zealand		Australia		New Zealand	
	(+)	(-)	(+)	(-)	(+)	(-)	(+)	(-)
Assumption	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Discount rate (+/- 0.5%)	(17)	19	n/a	2	(27)	30	n/a	24
Expected salary increase rate (0.5%)	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a
Expected deferred benefit crediting rate (0.5%)	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a
Pensioner indexation assumption (0.5%)	19	(18)	n/a	n/a	25	(23)	13	n/a
Pensioner mortality assumption (0.5%)	n/a	10	n/a	n/a	n/a	9	n/a	n/a
Life expectancy (additional 1 year)	n/a	n/a	1	n/a	n/a	n/a	4	n/a

2017	AMP				AMP AAPH			
	Australia		New Zealand		Australia		New Zealand	
	(+)	(-)	(+)	(-)	(+)	(-)	(+)	(-)
Assumption	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Discount rate (+/- 0.5%)	(17)	19	n/a	2	(27)	30	n/a	17
Expected salary increase rate (0.5%)	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a
Expected deferred benefit crediting rate (0.5%)	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a
Pensioner indexation assumption (0.5%)	19	(18)	n/a	n/a	25	(23)	14	n/a
Pensioner mortality assumption (0.5%)	n/a	10	n/a	n/a	n/a	9	n/a	n/a
Life expectancy (additional 1 year)	n/a	n/a	2	n/a	n/a	n/a	4	n/a

(g) Expected contributions and maturity profile of the defined benefit obligation

	AMP		AMP AAPH	
	Australia	New Zealand	Australia	New Zealand
Expected employer contributions (\$m)	-	-	1	-
Weighted average duration of the defined benefit obligation (years)	11	8	13	13

Accounting policy – recognition and measurement

Defined benefit plans

The AMPGH group recognises the net deficit or surplus position of each fund in the Consolidated statement of financial position. The deficit or surplus is measured as the difference between the fair value of the funds' assets and the discounted defined benefit obligations of the funds, using discount rates determined with reference to market yields on high quality corporate bonds at the end of the reporting period.

After taking into account any contributions paid into the defined benefit funds during the period, movements in the net surplus or deficit of each fund, except actuarial gains and losses, are recognised in the Consolidated income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions over the period and the returns on plan assets are recognised (net of tax) directly in retained earnings through Other comprehensive income.

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

Section 5: Employee disclosures

5.3 Share-based payments

AMP has multiple employee share-based payment plans. Share-based payment plans help create alignment between employees participating in those plans (participants) and shareholders. Information on plans which AMP currently offers is provided below.

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

	2018	2017
	\$'000	\$'000
Performance rights ¹	(680)	4,661
Share rights	22,495	20,919
Restricted Shares	6,255	-
Total share-based payments expense	28,070	25,580

1 Non-market performance rights which were forfeited or where the performance conditions were not met were reversed during the year.

(a) Performance rights

The AMP Group Leadership Team, as well as selected senior executives, are required to take their long-term incentive (LTI) awards in the form of performance rights. This was to ensure that the interests of those executives, who are most directly able to influence company performance, are appropriately aligned with the interests of shareholders.

Plan	LTI award plan
Overview	Performance rights give the participant the right to acquire one fully paid ordinary share in AMP Limited upon meeting specific performance hurdles. They are granted at no cost to the participant and carry no dividend or voting rights until they vest. This award may be settled through an equivalent cash payment, at the discretion of the board.
Vesting conditions	The performance hurdles for rights granted in 2015 and 2016 are: 60% subject to AMP's total shareholder return (TSR) performance relative to that of the entities in the Comparator Group[^] (being the top 50 industrial companies in the S&P/ASX 100 Index, based on market capitalisation rank on the start of the applicable performance period) over three years. 40% subject to a Return on Equity (RoE) measure. The performance hurdles for rights granted in 2017 are: 100% subject to AMP's TSR performance relative to entities in the Comparator Group[^] (being the top 50 industrial companies in the S&P/ASX 100 Index, based on market capitalisation rank on the start of the applicable performance period) over four years. No performance rights awards were granted under an LTI plan in 2018. [^] In determining the Comparator Group, all entities other than those in the global industry classification standard (GICS) energy sector and GICS metals and mining industry are classified as industrial companies.
Vesting period	- Three years for rights granted in 2015 and 2016. - Four years for rights granted in 2017.
Vested awards	Vested performance rights are automatically converted to shares on behalf of participants.
Unvested awards	Unvested awards are forfeited if the participant voluntarily ceases employment or is dismissed for misconduct.

Valuation of performance rights

The values for performance rights are based on valuations prepared by an independent external consultant. The valuations are based on the 10-day volume weighted average share price over the 10-day trading period prior to the start of the award's valuation period. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's actual historic dividend yield and volatility over an appropriate period.

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 and this is revisited each reporting date.

Section 5: Employee disclosures

5.3 Share-based payments (continued)

(a) Performance rights (continued)

The following table shows the factors considered in determining the value of the performance rights granted during the period:

Grant date	Share price	Contractual life (years)	Dividend yield	Volatility ¹	Risk-free rate ¹	TSR performance hurdle discount	RoE performance hurdle discount ²	TSR performance rights fair value	RoE performance rights fair value
04/06/2015	\$6.20	3.0	4.7%	23%	2.1%	55%	0%	\$2.82	\$5.39
18/09/2015	\$5.79	2.7	4.6%	23%	1.9%	58%	0%	\$2.43	\$5.11
15/04/2016	\$5.79	2.1	4.7%	23%	2.0%	69%	0%	\$1.80	\$5.24
02/06/2016	\$5.54	3.0	4.7%	24%	1.6%	57%	0%	\$2.37	\$4.81
13/01/2017	\$5.15	2.4	5.0%	23%	1.9%	71%	0%	\$1.47	\$4.57
19/05/2017	\$5.08	4.0	5.2%	23%	1.8%	56%	n/a	\$2.24	n/a

1 Applies to performance rights subject to a relative TSR performance hurdle only. These factors do not apply to performance rights subject to a RoE performance hurdle.

2 In accordance with the accounting standard AASB 2 *Share-based Payment*, 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 number of performance rights outstanding during the period:

Grant date	Exercise price	Balance at 1 Jan 2018	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2018
04/06/2015	Nil	2,638,260	-	-	2,638,260	-
18/09/2015	Nil	34,615	-	-	34,615	-
15/04/2016	Nil	21,788	-	-	21,788	-
02/06/2016	Nil	2,774,946	-	-	516,591	2,258,355
13/01/2017	Nil	12,820	-	-	-	12,820
19/05/2017	Nil	2,232,000	-	-	415,500	1,816,500
Total		7,714,429	-	-	3,626,754	4,087,675

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 45,715 performance rights have lapsed. Of the performance rights outstanding at the end of the period, none have vested or become exercisable.

(b) Share rights

- LTI participants below the AMP Group Leadership Team may be awarded share rights as part of their overall LTI award.
- Nominated executives and selected other senior leaders who have the ability to impact AMP's financial soundness participate in the Short-term Incentive Deferral Plan and Enterprise Profit Share Plan. These plans require that 40% of the participants' annual short-term incentive/profit share outcome be awarded as share rights.
- Selected AMP Capital employees participate in the Deferred Bonus Equity Plan whereby a portion of their annual short-term incentive outcome (above a specified threshold) is deferred into share rights.
- Prior to 2017, high potential employees at a senior leader level were eligible for nomination to participate in the Short-Term Incentive Match Plan, which provided an award of share rights to the value of 50% of the individual's short-term incentive outcome (the plan ceased in 2017).

Section 5: Employee disclosures

5.3 Share-based payments (continued)

(b) Share rights (continued)

Plan	LTI award plan	STI deferral plan	STI match plan
Overview	Share rights give the participant the right to acquire one fully paid ordinary share in AMP Limited after a specified service period. They are granted at no cost to the participant and carry no dividend or voting rights until they vest. This award may be settled through an equivalent cash payment at the discretion of the board.		
Vesting conditions/ period	AMP Group employees - continued service for three years (2015 and 2016 grants) and four years for the 2017 grant. No LTI grant was made in 2018. AMP Capital employees – the 2017 and 2018 LTI grants made to eligible employees have a three-year service period. Some awards may also vary where the share rights are awarded as a sign-on equity award or to retain an employee for a critical period.	Continued service for two years and subject to ongoing employment, compliance with AMP policies and the board's discretion. For AMP Capital employees participating in the Enterprise Profit Share Plan or the Deferred Bonus Equity Plan, the grant is split into two tranches with continued service for two and three years respectively. These are also subject to ongoing employment, compliance with AMP policies and the board's discretion.	Continued service for two years and subject to ongoing employment, compliance with AMP policies and the board's discretion.
Vested awards	Vested share rights are automatically converted to shares on behalf of participants.		
Unvested awards	Unvested awards are forfeited if the participant voluntarily ceases employment or is dismissed for misconduct.		

Valuation of share rights

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. 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.

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.

The following table shows the factors which were considered in determining the independent fair value of the share rights granted during the period:

Grant date	Share price	Contractual life (years)	Dividend yield	Dividend discount	Fair value
04/06/2015	\$6.20	3.0	4.7%	13%	\$5.39
18/09/2015	\$5.79	2.7	4.6%	12%	\$5.11
28/04/2016	\$5.84	1.8	4.7%	8%	\$5.36
02/06/2016	\$5.54	3.0	4.7%	13%	\$4.81
13/01/2017	\$5.15	2.4	5.0%	11%	\$4.57
13/01/2017	\$5.15	1.6	5.0%	8%	\$4.75
27/04/2017	\$5.30	2.8	5.2%	14%	\$4.57
27/04/2017	\$5.30	1.8	5.2%	9%	\$4.82
19/05/2017	\$5.08	3.0	5.2%	13%	\$4.43
19/05/2017	\$5.08	4.0	5.2%	17%	\$4.21
03/07/2017	\$5.19	2.0	5.2%	10%	\$4.68
02/04/2018	\$4.99	3.0	5.7%	14%	\$4.27
02/04/2018	\$4.99	1.9	5.7%	10%	\$4.49
02/04/2018	\$4.99	2.9	5.7%	15%	\$4.25
16/07/2018	\$3.60	0.4	6.0%	2%	\$3.52
16/07/2018	\$3.60	1.1	6.0%	6%	\$3.38
13/08/2018	\$3.39	0.5	5.3%	3%	\$3.30
13/08/2018	\$3.39	1.0	5.3%	5%	\$3.21
13/08/2018	\$3.39	2.0	5.3%	10%	\$3.05
13/08/2018	\$3.39	3.0	5.3%	15%	\$2.89
03/12/2018	\$2.49	1.2	5.3%	6%	\$2.34
03/12/2018	\$2.49	2.2	5.3%	11%	\$2.22

Notes to the financial statements

for the year ended 31 December 2018

Section 5: Employee disclosures**5.3 Share-based payments (continued)****(b) Share rights (continued)**

The following table shows the movement in share rights outstanding during the period:

Grant date	Exercise price	Balance at 1 Jan 2018	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2018
04/06/2015	Nil	1,468,292	1,250,774	-	85,161	132,357
18/09/2015	Nil	34,615	-	-	34,615	-
28/04/2016	Nil	3,313,939	3,229,512	-	84,427	-
02/06/2016	Nil	1,671,971	-	-	122,071	1,549,900
13/01/2017	Nil	12,821	-	-	-	12,821
13/01/2017	Nil	8,818	-	-	-	8,818
27/04/2017	Nil	1,541,020	-	-	78,223	1,462,797
27/04/2017	Nil	1,086,272	-	-	38,461	1,047,811
19/05/2017	Nil	566,000	-	-	5,000	561,000
19/05/2017	Nil	1,264,397	-	-	198,134	1,066,263
03/07/2017	Nil	9,671	-	-	-	9,671
02/04/2018	Nil	-	-	655,425	2,879	652,546
02/04/2018	Nil	-	-	1,836,932	103,558	1,733,374
02/04/2018	Nil	-	-	1,116,415	40,358	1,076,057
16/07/2018	Nil	-	-	40,650	-	40,650
16/07/2018	Nil	-	-	40,650	-	40,650
13/08/2018	Nil	-	-	39,895	-	39,895
13/08/2018	Nil	-	-	53,191	-	53,191
13/08/2018	Nil	-	-	53,191	-	53,191
13/08/2018	Nil	-	-	53,191	-	53,191
03/12/2018	Nil	-	-	142,856	-	142,856
03/12/2018	Nil	-	-	142,857	-	142,857
Total		10,977,816	4,480,286	4,175,253	792,887	9,879,896

From the end of the financial year and up to the date of this report, 2,429,052 share rights have been issued, 1,651,363 share rights have been exercised, and 161,631 share rights have lapsed due to resignation. Of the share rights outstanding at the end of the period, none have vested or become exercisable.

(c) Restricted shares**AMP Employee Share Plan - \$1,000 Share Plan**

AMP has given permanent employees the opportunity to become shareholders in AMP through the launch of the AMP Employee Share Plan (AESP). All permanent employees as at 12 December 2018 will be offered a \$1,000 award of shares subject to employment on the allocation date in March 2019. These shares will be subject to a restriction on sale and transfer for up to three years from the date they are allocated. Any shares so acquired will be released to the participant at the end of the three-year period or when they leave employment with AMP (whichever is earlier).

Valuation of AMP Employee Share Plan

For the AESP, the fair value of the shares will be 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.

(d) Employee share acquisition plan

The employee share acquisition plan was suspended mid-way through 2009 in Australia but continues to operate in New Zealand.

Section 5: Employee disclosures

5.3 Share-based payments (continued)

Accounting policy – recognition and measurement

Equity-settled share-based payments

The cost of equity-settled share-based payments is measured using their fair value at the date on which they are granted. The fair value calculation takes into consideration a number of factors, including the likelihood of achieving market-based vesting conditions such as total shareholder return (market conditions).

The cost of equity-settled share-based payments is recognised in the Income statement, together with a corresponding increase in the share-based payment reserve (SBP reserve) in equity, over the vesting period of the instrument. At each reporting date, the AMP group reviews its estimates of the number of instruments that are expected to vest and any changes to the cost are recognised in the Income statement and the SBP reserve, over the remaining vesting period.

Where the terms of an equity-settled share-based payment are modified and the expense increases as a result of the modification, the increase is recognised over the remaining vesting period. When a modification reduces the expense, there is no adjustment and the pre-modification cost continues to be recognised.

Where an equity-settled award does not ultimately vest, expenses are not reversed; except for awards where vesting is conditional upon a non-market condition, in which case all expenses are reversed in the period in which the instrument lapses.

Section 6: Group entities

This section explains significant aspects of the AMPGH group structure, including significant investments in controlled operating entities and entities controlled by AMP Life's statutory funds, and investments in associates. It also provides information on business acquisitions and disposals made during the year.

- 6.1 Controlled entities
- 6.2 Acquisitions and disposals of controlled entities
- 6.3 Investments in associates
- 6.4 Parent entity information

6.1 Controlled entities

(a) Significant investments in controlled operating entities are as follows:

Operating entities Name of entity	Country of registration	Share type	%holdings	
			2018	2017
AMP AAPH Limited	Australia	Ord	100	100
AMP Advice Holdings Pty Ltd	Australia	Ord	100	100
AMP Capital Funds Management Limited	Australia	Ord	85	85
AMP Capital Holdings Limited	Australia	Ord	85	85
AMP Capital Investors (New Zealand) Limited	New Zealand	Ord	85	85
AMP Capital Investors Limited	Australia	Ord	85	85
AMP Capital Office and Industrial Pty Limited	Australia	Ord	85	85
AMP Capital Shopping Centres Pty Limited	Australia	Ord	85	85
AMP Financial Planning Pty Limited	Australia	Ord	100	100
AMP Group Finance Services Limited	Australia	Ord	100	100
AMP Group Holdings Limited	Australia	Ord A	100	100
AMP Life Limited	Australia	Ord	100	100
AMP Services (NZ) Limited	New Zealand	Ord	100	100
AMP Services Limited	Australia	Ord A	100	100
AMP Superannuation Limited	Australia	Ord	100	100
AMP Wealth Management New Zealand Limited	New Zealand	Ord	100	100
Hillross Financial Services Limited	Australia	Ord	100	100
ipac Group Services Pty Ltd	Australia	Ord	100	100
National Mutual Funds Management Ltd	Australia	Ord	100	100
National Mutual Life Nominees Pty Limited	Australia	Ord	100	100
NMMT Limited	Australia	Ord	100	100
The National Mutual Life Association of Australasia Limited	Australia	Ord	100	100

(b) Investments in investment entities controlled by the AMP Life's statutory funds

The life insurance statutory funds hold investments in various investment vehicles/funds backing policyholder liabilities as well as shareholder attributable assets in the life insurance statutory funds. The policyholder attributable investments are not part of the core wealth management business of AMP and do not have a material impact on the financial performance or net financial position of the company. The investments are measured at fair value through profit and loss reflecting the fair value movements in these investments in the financial statements.

Critical accounting estimates and judgements:

Judgement is applied in determining the relevant activities of each entity, whether AMP Group Holdings Limited has power over these activities and whether control exists. This involves assessing the purpose and design of the entity and identifying the activities which 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. Management also considers 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 Group Holdings Limited'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.

Section 6: Group entities

6.2 Acquisitions and disposals of controlled entities

(a) Acquisitions and disposals of controlled operating entities

There were no individually or collectively significant acquisitions or disposals of controlled operating entities during the year.

(b) Acquisition and disposals of controlled entities of AMP Life's statutory funds

In the course of normal operating investment activities, the AMP Life's statutory funds acquire equity interests in entities which, in some cases, result in AMPGH holding a controlling interest in the investee entity.

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

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

Section 6: Group entities

6.3 Investments in associates

(a) Investments in associates accounted for using the equity method

Associate	Principal activity	Place of business	Ownership interest		Carrying amount ¹	
			2018 %	2017 %	2018 \$m	2017 \$m
China Life Pension Company ³	Pension company	China	19.99	19.99	305	281
AIMS AMP Capital Industrial REIT ²	Industrial property trust	Singapore	10	5	101	47
China Life AMP Asset Management Company Ltd	Investment management	China	15	15	49	23
Global Infrastructure Fund Sponsor ²	Fund	Cayman Island	5	8	98	151
Global Infrastructure Fund II ²	Fund	Cayman Island	5	-	81	-
PCCP LLC ³	Investment management	United States	24.9	24.9	145	127
Other (individually immaterial associates)			n/a	n/a	145	120
Total investments in associates accounted for using the equity method					924	749

- 1 The carrying amount is after recognising \$42m (2017: \$29m) share of current period profit or loss of associates accounted for using the equity method.
- 2 Entities within the AMPGH group have been appointed investment manager, therefore the group is considered to have significant influence.
- 3 The AMPGH group has significant influence through representation on the entity's Board.

(b) Investments in significant associates held by AMP Life's statutory funds measured at fair value through profit or loss

The life insurance statutory funds hold investments in various investment vehicles/funds on behalf of policyholders. These investments are not part of the core wealth management business of the AMPGH group and do not have a material impact on the financial performance or net financial position of the AMPGH group.

Accounting Policy – recognition and measurement

Investments in associates

Investments in associates accounted for using the equity method

Investments in entities, other than those backing investment contract liabilities and life insurance contract liabilities, over which the AMPGH group has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. The investment is measured at cost plus post-acquisition changes in the AMPGH group's share of the associates' net assets, less any impairment in value. The AMPGH group's share of profit or loss of associates is included in the Consolidated income statement. Any dividend or distribution received from associates is accounted for as a reduction in carrying value of the associate.

Any impairment is recognised in the Consolidated income statement when there is objective evidence a loss has been incurred. It is measured as the amount by which the carrying amount of the investment in entities exceeds its recoverable amount.

Investments in associates measured at fair value through profit or loss

Investments in entities held to back investment contract liabilities and life insurance contract liabilities are exempt from the requirement to apply equity accounting and have been designated on initial recognition as financial assets measured at fair value through profit or loss.

Section 6: Group entities

6.4 Parent entity information

	2018 \$m	2017 \$m
(a) Statement of comprehensive income - AMP Group Holdings Limited entity		
Dividends and interest from controlled entities ¹	155	830
Profit for the year	155	830
Total comprehensive income for the year	155	830
(b) Statement of financial position - AMP Group Holdings Limited entity		
Non-current assets		
Investments in controlled entities	8,821	8,412
Total assets	8,821	8,412
Current liabilities		
Payables	725	10
Total liabilities	725	10
Net assets	8,096	8,402
Equity		
Contributed equity	7,941	7,941
Retained earnings	155	461
Total equity	8,096	8,402

1 Dividend income from controlled entities \$155m (2017: \$830m) is not assessable for tax purposes.

(c) Contingent liabilities of the AMP Group Holdings Limited entity

The AMP Group Holdings Limited entity has entered into deeds to provide capital maintenance and liquidity support to AMP Bank Limited. At the reporting date, the likelihood of any outflow in settlement of these obligations is considered to be remote.

(d) Parent entity and ultimate parent entity of AMP Group Holdings Limited

The parent entity and the ultimate parent entity of AMP Group Holdings Limited is AMP Limited.

Section 7: Other disclosures

This section includes disclosures other than those covered in the previous sections, required for the AMPGH group to comply with the accounting standards and pronouncements.

- 7.1 Notes to Consolidated statement of cash flows
- 7.2 Commitments
- 7.3 Provisions and contingent liabilities
- 7.4 Auditors' remuneration
- 7.5 New accounting standards
- 7.6 Events occurring after reporting date

7.1 Notes to Consolidated statement of cash flows

(a) Reconciliation of cash flow from operating activities

	2018 \$m	2017 \$m
Net (loss) profit after income tax	(161)	720
Depreciation of operating assets	22	17
Amortisation and impairment of intangibles	239	276
Investment gains and losses and movements in external unitholders' liabilities	8,299	(1,554)
Dividend and distribution income reinvested	(5,502)	(4,686)
Share-based payments	6	6
Increase in receivables, intangibles and other assets	(572)	(152)
(Decrease) increase in net policy liabilities	(6,769)	3,769
(Decrease) increase in income tax balances	(930)	171
Increase (decrease) in other payables and provisions	482	(1,376)
Cash flows used in operating activities	(4,886)	(2,809)

(b) Reconciliation of cash

	2018 \$m	2017 \$m
Comprises:		
Cash and cash equivalents	5,850	5,916
Short-term bills and notes (included in Debt securities)	3,450	3,620
Cash and cash equivalents for the purpose of the Statement of cash flows	9,300	9,536

Accounting policy – recognition and measurement

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 Consolidated statement of cash flows, Cash and cash equivalents 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 Interest-bearing liabilities in the Consolidated statement of financial position.

Section 7: Other disclosures

7.2 Commitments

	2018 \$m	2017 \$m
Due within one year	76	81
Due within one year to five years ¹	319	279
Due later than five years ¹	846	951
Total operating lease commitments	1,241	1,311

1 Operating lease commitments includes commitments to enter leases which have not yet commenced.

Non-cancellable operating leases are in relation to the AMP group's offices in various locations. AMP generally pays rent on a periodic basis at rates agreed at the inception of the lease.

At 31 December 2018, the total of future minimum sublease payments expected to be received under non-cancellable subleases was \$5m (2017: \$15m).

(c) Buy-back arrangements

AMPGH has contractual arrangements with financial advice businesses in the AMP advice network to purchase their client registers at agreed values subject to certain conditions being met. These buy-back arrangements include arrangements known as Buyer of Last Resort (BOLR). Advice businesses must register their intention to invoke buy-back arrangements, which have six to 18 month lead times and are subject to audit prior to finalising the purchase price. The pipeline of buy-back arrangements where an intention to invoke has been registered is \$163m (2017: \$86m), \$141m of which relates to arrangements expected to settle in the next 12 months. The commitment value has been disclosed as the unaudited value as advised by the advice businesses. AMPGH's experience is that the ultimate purchase price after audit is typically less than the initially advised value and not all of the buy-backs progress to completion. Over the 12 months ended 31 December 2018, \$33m was paid for executed buy-back arrangements.

Accounting policy – recognition and measurement

Operating lease payments

Operating lease payments are recognised as an expense in the Consolidated income statement on a straight-line basis over the lease term or other systematic basis representative of the patterns of the benefits obtained. Operating incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Section 7: Other disclosures

7.3 Provisions and contingent liabilities

	2018 \$m	2017 \$m
(a) Provisions		
Restructuring ¹	19	22
Customer remediation	656	51
Other ²	154	78
Total provisions	829	151

	Restructuring ¹ \$m	Customer remediation \$m	Other ² \$m	Total \$m
(b) Movements in provisions				
Balance at the beginning of the year	22	51	78	151
Additional provisions made during the year	19	615	146	780
Provisions used during the year	(22)	(10)	(70)	(102)
Balance at the end of the year	19	656	154	829

- 1 Restructuring provisions are recognised in respect of programs that materially change the scope of the business or the manner in which the business is conducted.
- 2 Other provisions are in respect of probable outgoings on client remediation projects and various other operational provisions. \$25m (2017: \$17m) is expected to be settled more than 12 months from the reporting date.

Accounting policy – recognition and measurement

Provisions

Provisions are recognised when:

- the AMPGH group 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.

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.

A contingent liability is disclosed where a legal or constructive obligation is possible, but not probable or where the obligation is probable, but the financial impact of the event is unable to be reliably estimated.

Critical accounting estimates and judgements:

The AMPGH group recognises a provision where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

Notes to the financial statements

for the year ended 31 December 2018

Section 7: Other disclosures**7.3 Provisions and contingent liabilities (continued)**

From time to time, the AMPGH group may incur obligations arising from litigation or various types of contracts entered into in the normal course of business, including guarantees issued by the parent for performance obligations to controlled entities in the AMPGH group. Legal proceedings threatened against the AMPGH group may also, if filed, result in the AMPGH group incurring obligations. A contingent liability exists in relation to actual and likely potential legal proceedings.

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

Industry and regulatory compliance investigations

AMPGH is subject to review from time to time by regulators, both in Australia and offshore. In Australia, AMPGH's principal regulators are APRA, ASIC and AUSTRAC, although other government agencies may have jurisdiction depending on the circumstances. The reviews and investigations conducted by regulators may be industry-wide or specific to AMPGH and the outcomes of those reviews and investigations can vary and may lead, for example, to the imposition of penalties, variations or restrictions to licences, the compensation of customers, enforceable undertakings or recommendations and directions for AMPGH to enhance its control framework, governance and systems.

AMPGH is undertaking additional reviews concurrently with these regulatory investigations to determine, amongst other things, where customers may have been disadvantaged. In some instances, compensation has been paid and where the results of our reviews have reached the point that customer compensation is likely and can be reliably estimated then a provision has been raised.

The Royal Commission

In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission) to investigate conduct, practices, behaviour or business activities by financial services entities, including the AMP group, that may amount to misconduct or that may have fallen below community standards and expectations.

During the course of 2018, the Royal Commission conducted a number of public hearings and required the production of documents as part of its inquiry. AMPGH responded by preparing submissions, attending hearings and providing documents as requested.

The final report of the Royal Commission was publicly released on 4 February 2019 and made:

- 76 policy recommendations which may result in legislative and regulatory change; and
- a number of findings of actual or possible misconduct (including breaches of law) or conduct which does or may fall below community standards and expectations, in relation to participants in the financial services industry, including the AMP group.

AMPGH is considering the various matters raised in the Commissioner's final report. The findings of the Royal Commission may result in litigation, fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other regulatory action. The policy recommendations include recommendations relating to financial advice, superannuation, banking, insurance and regulators. For certain policy recommendations, an existing provision is held or impairments on the carrying value of assets are reflected in this financial report; however the aggregate potential impact of these recommendations to AMPGH cannot be accurately assessed at the date of this financial report and a contingent liability exists.

Customer remediation

AMPGH is progressing with its customer review and remediation programs which are seeking to identify and compensate customers who have suffered loss or detriment as a result of either:

- inappropriate advice from their adviser; or
- where customers have been charged an advice service fee without the provision of service.

During the year, provisions have been raised for both of these items, inclusive of program costs. The actual compensation to customers and related program costs could vary significantly from the amounts provided. In particular, the application of the program and remediation principles (following the final agreement with ASIC) and the pattern and timing of individual customer compensation could have a significant impact on the final compensation and the costs of the programs.

Provisions for advice remediation do not include amounts for potential recoveries from advisers and insurers.

Inappropriate advice

AMPGH continues to progress with the identification and compensation of customers who have suffered loss or detriment as a result of receiving inappropriate advice from their adviser. The scope of the review includes the period from 1 January 2009 to 30 June 2015 specified by ASIC in Report 515 Financial advice: Review of how large institutions oversee their advisers and extended to 30 June 2017, as well as including any instances of inappropriate advice identified through ongoing supervision and monitoring activities.

In some instances compensation has been paid and a provision exists for further compensation payable as the review progresses and client reviews are completed. AMPGH has adjusted its provision estimate for future compensation based on the actual experience of remediating clients and the future costs of operating the program and this has resulted in an increase in the provision as at 31 December 2018. The provision includes a component for advisers for which a remediation review has not yet commenced and the determination of compensation for any given client is not known with certainty until immediately prior to payment.

Notes to the financial statements

for the year ended 31 December 2018

Section 7: Other disclosures**7.3 Provisions and contingent liabilities (continued)***Advice service fee (fees for no service)*

AMPGH has established a program to focus on the identification and compensation of customers of advisers who have been charged an ongoing service fee without the provision of service. This involves a large-scale review of fee arrangements from 1 July 2008 as specified by ASIC in Report 499 Financial advice: Fees for no service. Sampling of customer files has been conducted across AMPGH licensees and has identified instances in the review period where customers have paid fees and there is insufficient evidence to support that the associated service had been performed.

AMPGH is developing a process for customer review and remediation within a reasonable timeframe, which on current estimates is three years finishing mid 2021. AMPGH has been engaging with ASIC on this process and whilst progress has been made, discussions on principles to be applied when remediating customers are yet to be concluded at the date of this report.

A provision for advice service fee customer compensation and the future costs of executing the program has been raised during the year ended 31 December 2018. This provision is judgemental and has been estimated using multiple assumptions derived from the sampling conducted to date. Assumptions used include evidence failure rates, average fees to be refunded and compensation for lost earnings.

Other matters

In addition to the above items, other reviews in relation to fees charged to customers are being undertaken, including corporate plan service fees, fees charged to orphan customers and deceased estates; and where required, customers will be remediated. The reviews have not progressed sufficiently to be able to reliably estimate any impact as at 31 December 2018 and a contingent liability exists for the financial impact of customer remediation.

Buy-back arrangements

AMPGH has contractual arrangements with financial advice businesses in the AMP advice network to purchase their client registers at agreed multiples to recurring revenues subject to certain conditions being met. These buy-back arrangements include arrangements known as Buyer of Last Resort (BOLR). Advice businesses must register their intention to invoke buy-back arrangements, which have six to 18 month lead times, and are subject to audit prior to finalising the purchase price. Client registers are either acquired outright by AMPGH or AMPGH facilitates a sale to an existing business within the AMP advice network.

AMPGH is currently assessing options in relation to how grandfathered commissions are valued for the purpose of buy-back arrangements, recognising that the findings of the Royal Commission make specific reference to grandfathered commissions. Consultation with AMP's advice network has commenced and dependent upon the implementation approach, which has not yet been settled, a contingent liability exists in relation to these arrangements. Where a notice of intention to invoke the buy-back arrangement has been received as at 31 December 2018 and AMPGH has concluded that the purchase price of the register exceeds the value of the client registers to AMPGH, a provision has been raised for the difference.

Litigation*Shareholder class actions*

During May and June 2018, AMP Limited was served with five competing shareholder class actions, one filed in the Supreme Court of NSW and the others filed in the Federal Court of Australia. The actions follow the financial advice hearing block in the Royal Commission in April 2018 and allege breaches by AMP Limited of its continuous disclosure obligations. Each action is on behalf of shareholders who acquired an interest in AMP Limited shares over a specified time period, the longest of which is between 10 May 2012 and 17 April 2018. The claims are yet to be quantified and participation has not been determined. AMP Limited has filed its defence in the action initially brought in the Supreme Court of NSW. The various other competing proceedings have subsequently been transferred to the Supreme Court of NSW. AMP is awaiting the Court's decision on which of the five class actions is to continue. Currently it is not possible to determine the ultimate impact of these claims, if any, upon AMP. AMP Limited intends to vigorously defend these actions.

ASIC civil penalty proceedings

AMP Financial Planning Pty Limited (AMPFP), a wholly-owned subsidiary of AMPGH group, is the subject of proceedings brought by ASIC on 27 June 2018. The proceedings allege contraventions of the Corporations Act 2001 (Cth) by AMPFP relating to the alleged conduct of certain of its authorised financial advisers in providing advice to customers in relation to the replacement of life insurance policies by cancellation and new application rather than by transfer. ASIC's claim is in respect of six advisers and 40 instances of advice. ASIC is seeking declarations that AMPFP contravened various sections of the Corporations Act and orders that AMPFP pay pecuniary penalties of an unspecified amount. AMPFP filed its defence in September 2018. AMPFP has made certain admissions in respect of the conduct of a single adviser terminated by AMPFP and banned by ASIC several years ago. However, AMPFP is vigorously defending ASIC's allegation that this conduct constitutes a broader, systemic issue.

Section 7: Other disclosures

7.4 Auditors' remuneration

	2018	2017
	\$'000	\$'000
AMP Group Holdings Limited and other corporate entities in the consolidated group		
Audit services		
Audit or review of financial statements	5,950	5,380
Other audit services ¹	1,034	1,044
Total audit service fees	6,984	6,424
Non-audit services		
Taxation services	766	419
Other services ²	976	788
Total non-audit services fees	1,742	1,207
Total auditors' remuneration for AMP Group Holdings Limited and other corporate entities	8,726	7,631
Managed Investment Schemes and Superannuation Funds		
Audit services		
Audit or review of financial statements	6,474	6,977
Other audit services ¹	371	303
Total audit service fees	6,845	7,280
Non-audit services		
Taxation services	274	305
Other services ³	280	-
Total non-audit services fees	554	305
Total auditors' remuneration for managed investment schemes and superannuation	7,399	7,585
Total auditors' remuneration	16,125	15,216

1 Other audit services includes regulatory compliance and review s of controls and procedures.

2 Other non-audit services for AMP Group Holdings Limited and other corporate entities relate to compliance related review .

3 Other non-audit services for managed investment schemes and superannuation funds are primarily related to transaction related advice.

Section 7: Other disclosures

7.5 New accounting standards

a) New and amended accounting standards adopted by the AMPGH group

A number of new accounting standards and amendments have been adopted effective 1 January 2018. These have not had a material effect on the financial position or performance of the AMPGH group.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* (AASB 15) became effective for periods beginning on 1 January 2018. AASB 15 defines principles for recognising revenue and introduces new disclosure requirements. Under AASB 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled to in exchange for transferring goods or services to a customer. Revenue from contracts with customers, as defined by AASB 15, is disclosed as Fee revenue and Other revenue on the Consolidated Income Statement.

AMPGH group has applied the 'cumulative effect' method in adopting AASB 15 which requires an adjustment to the retained earnings at 1 January 2018 for contracts that remained open as at that date. The cumulative effect at 1 January 2018 was less than \$1m as the primary impact on the AMPGH group was the change in presentation of some revenue from gross to net or vice versa which did not have any profit impact. AASB 15 also changes the timing of the recognition of performance fees for certain closed end funds, the impact of which will emerge in future years.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* (AASB 9) became effective for periods beginning on 1 January 2018. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected loss model when recognising expected credit losses (ECL) on financial assets, and also introduces new general hedge accounting requirements.

AMPGH group has applied AASB 9 retrospectively without restating the comparative information for 2017 as permitted by the transitional provisions of the standard. The difference between the previous carrying amount of financial instruments and the carrying amount of those instruments at 1 January 2018 measured in accordance with AASB 9 has been recorded as an adjustment to retained earnings at 1 January 2018. As permitted by AASB 9 the AMPGH group has chosen to continue to apply the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurement*.

The key changes in the AMPGH group's accounting policies resulting from the adoption of AASB 9 are summarised below:

Classification and measurement

Under AASB 9, the AMPGH group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual characteristics of the financial assets. We note the following classification change as a result of the adoption of AASB 9:

- Financial instruments which were previously classified as loans and receivables are now classified as amortised cost.

The accounting for the AMPGH group's financial liabilities remains the same as it was under AASB 139.

The adoption of AASB 9 has changed the AMPGH group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The ECL model, further described in note 2.1, applies to all the AMPGH group's financial assets measured at amortised cost, loan commitments and financial guarantee contracts not measured at fair value through the Consolidated income statement.

The AMPGH group's syndicated loan facility was renegotiated effective 14 December 2017. On adoption of AASB 9, a gain on modification of \$15m was recognised as an adjustment to retained earnings, as a result of the change in terms. This gain was also recognised as an offset to the carrying value of the facility and will amortise over its life. The amortisation of the gain is recognised as an increase to Finance costs on the Consolidated income statement.

The following table identifies the impacts of the adoption of AASB 9 on the reserves and retained earnings balances at 1 January 2018:

	Retained earnings \$m
Balance at 31 December 2017	(35)
Expected credit losses - trade receivables	(5)
Gain on modification of syndicated loan	15
Tax impact	(3)
Balance at 1 January 2018	(28)

Section 7: Other disclosures

7.5 New accounting standards (continued)

b) New accounting standards issued but not yet effective

A number of new accounting standards and amendments have been issued but are not yet effective, none of which have been early adopted by the AMPGH group 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 the AMPGH group, other than as set out below.

AASB 16 Leases

AASB 16 Leases (AASB 16) is effective for periods beginning on 1 January 2019. AASB 16 requires lessees to recognise most leases on balance sheet as lease liabilities, with corresponding right-of-use (ROU) assets. Lessees have the option to not recognise short-term leases and leases of low-value assets.

AMPGH group has materially completed the impact assessment of AASB 16 adoption as at 1 January 2019. The estimated impact for the AMPGH group as a lessee is in the order of \$200m to \$220m which will be recognised as an increase in lease liabilities with a corresponding ROU asset. The actual impact of adoption could be different as new accounting policies are subject to change until the group presents its first financial statements that include the date of initial application.

As a result of adoption of AASB 16, the nature of expenses relating to leases will change. Operating lease expenses were previously recognised on a straight-line basis. However, under AASB 16 the group will recognise depreciation expense for ROU assets and interest expense for lease liabilities.

AMPGH group expects to adopt AASB 16 using the modified retrospective approach. Under this approach the cumulative effect of adoption will be recognised as an adjustment to opening retained earnings at 1 January 2019, with no restatement of comparative information.

AASB 17 Insurance Contracts

AASB 17 Insurance Contracts (AASB 17) is effective for periods beginning on 1 January 2021. The new standard will introduce significant change to the accounting for life insurance contracts and the reporting and disclosures in relation to those contracts. The new standard, of itself, does not change the underlying economics or cash flows of the life insurance business. However, it is anticipated that there will be an impact on profit emergence profiles from life insurance contracts. Subject to any changes to regulation or legislation which may be made in response to the new standard, there may also be an impact on the determination of capital requirements and income tax.

The detailed requirements of the standard are complex, and in some cases the final impact of these requirements will not be determined until interpretations and regulatory responses to the new standard are developed. The AMPGH group is continuing to develop its implementation plan for the adoption of AASB 17.

AASB Interpretation 23 'Uncertainty over Income Tax Treatments' effective for periods beginning on 1 January 2019

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

7.6 Events occurring after reporting date

- a) In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission) to investigate conduct, practices, behaviour or business activities by financial services entities, including AMP group, that may amount to misconduct or that may have fallen below community standards and expectations. During the course of 2018, the Royal Commission has conducted a number of public hearings and required the production of documents as part of its inquiry.

The final report of the Royal Commission was publicly released on 4 February 2019 and made:

- 76 policy recommendations which may result in legislative and regulatory change; and
- a number of findings of actual or possible misconduct (including breaches of law) or conduct which does or may fall below community standards and expectations in relation to participants in the financial services industry, including the AMP group.

AMPGH is considering the various matters raised in the Commissioner's final report.

- b) On 4 February 2019, AMP Bank entered into a deed of indemnity with AMP Group Holdings Limited (AMPGH) under which AMPGH agreed to unconditionally and irrevocably indemnify AMP Bank for losses in excesses of those provided for as at 31 January 2019 suffered in connection with loans provided to an authorised representative of an AMP licensee (AMP Adviser) which relate to a change to law, regulation or a change an AMP Licensee makes to its arrangements with AMP Advisers or matters identified in the course of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
- c) On 14 March 2019 the AMPGH group issued USD300m 4 per cent Notes (the "Notes") under its US Medium Term Note Programme. The Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and mature 14 September 2021.
- d) Subsequent to year end, the AMPGH group launched a CHF140m Senior Unsecured Fixed Rate Bonds issuance under its US Medium Term Note Programme. The Bonds are expected to be issued on 18 April 2019 and mature 18 July 2023.

Notes to the financial statements

for the year ended 31 December 2018

Section 7: Other disclosures

7.6 Events occurring after reporting date (continued)

Other than these matters above, as at the date of this report, the directors are not aware of any other matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect:

- the AMPGH group's operation in future years;
- the results of those operations in future years; or
- the AMPGH group's state of affairs in future financial years.

AMP Group Holdings Limited

Directors' declaration

for the year ended 31 December 2018

In accordance with a resolution of the directors of AMP Group Holdings Limited, for the purposes of section 295(4) of the *Corporations Act 2001*, the directors declare that:

- (a) in the opinion of the directors, there are reasonable grounds to believe that AMP Group Holdings Limited will be able to pay its debts as and when they become due and payable;
- (b) in the opinion of the directors, the financial statements and notes of AMP Group Holdings Limited and the consolidated entity for the financial year ended 31 December 2018 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 of AMP Group Holdings Limited and the consolidated entity for the financial year ended 31 December 2018 include an explicit and unreserved statement of compliance with the International Financial Reporting Standards.


.....
Director

Sydney, 16 April 2019

Independent Auditor's Report to the Shareholders of AMP Group Holdings Limited

Opinion

We have audited the financial report of AMP Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

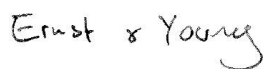
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ernst & Young



Andrew Price
Partner
Sydney
16 April 2019