ASX Announcement

14 February 2019

Manager
ASX Market Announcements
Australian Securities Exchange
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Sydney NSW 2000

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AMP Limited (ASX/NZX: AMP)

Full Year Financial Results

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Part One: **Appendix 4E**

Appendix 3A.1

Part Two: AMP reports FY 18 results

Part Three: Investor presentation

Part Four: Investor report

AMP Limited

ABN 49 079 354 519

Appendix 4E – Preliminary final report

Year ended 31 December 2018

Contents

Results for announcement to the market

for the year ended 31 December 2018

Financial results	31 Dec 2018 $m	31 Dec 2017 $m	% movement
Revenue from ordinary activities[1]	**8,286**	18,439	55% decrease
Profit from ordinary activities after tax attributable to members	**28**	848	97% decrease
Net profit for the period attributable to members	**28**	848	97% decrease

1 Revenue from ordinary activities includes amounts attributable to shareholders, policyholders and external unitholders. The amount is the aggregate of life insurance contract related revenue including life insurance claims recovered from reinsurers of $3,140m (2017: $3,231m), fee revenue of $3,083m (2017: $3,115m), other revenue of $167m (2017: $176m), net investment gains of $1,854m (2017: $11,888m gain) and share of profit or (loss) of associates accounted for using the equity method $42m (2017: $29m).

Dividends	Amount per security (cents)	Franked amount per security (cents)
- Final dividend (payable) (franked to 90% at a tax rate of 30%)[1,2]	4.00	3.60
- Interim dividend (paid) (franked to 50% at a tax rate of 30%)	10.00	5.00
The record date to determine entitlements to the final dividend	28-Feb-2019	
The date the final dividend is payable	28-Mar-2019	

1 The unfranked component of the 2018 final dividend will be declared to be conduit foreign income.
2 AMP has a dividend reinvestment plan (DRP) under which shareholders who have a registered address in, and are residents of, Australia and New Zealand are invited to reinvest all or part of any dividends receivable in additional shares. The price of the shares under the plan will be the arithmetic average of the daily volume weighted average price per share of all shares sold in the ordinary course of trading on the ASX for the 8 trading days from 5 March 2019 to 14 March 2019, rounded to the nearest one cent. For the 2018 final dividend, no discount to the price will apply. AMP intends to issue new shares to satisfy any entitlements under the DRP. Shares provided under the DRP will rank equally in all respects with existing fully paid AMP ordinary shares. The last date for receipt of election notices from shareholders wanting to commence, cease or vary their participation in the DRP for the 2018 final dividend is by 5:00pm (Australian Eastern Daylight Savings Time) on 1 March 2019.

Net tangible assets per ordinary share	31 Dec 2018 $	31 Dec 2017 $
Net tangible assets per ordinary share	1.19	1.38

This Appendix 4E - Preliminary final report has not been subject to audit and there is no audit report provided. However, a substantial part of the financial information in the preliminary final report has been extracted from the AMP 2018 financial report which has been audited by Ernst & Young, who have issued an unqualified audit report. The audit report forms part of the AMP 2018 annual report. The presentation of the AMP 2018 annual report will be finalised for lodgement with ASX on 20 March 2019.

Commentary on the results

for the year ended 31 December 2018

This commentary on the results provides information on the structure and progress of our business, our 2018 financial performance, our strategies and prospects for the future and the key risks we face. It covers AMP Limited and the entities it controlled during the year ended 31 December 2018.

Operating and financial review

Principal activities

AMP 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 AMP and through a network of over 2,500 aligned and employed financial advisers and extensive relationships with independent financial advisers. AMP 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 five areas: Australian wealth management, AMP Capital, AMP Bank, 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 AMP'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.

AMP Bank is an Australian retail bank participating in residential mortgage lending, and retail and platform deposits. AMP Bank's mission is to help customers with their goals for life, providing them with targeted retail banking solutions focused on wealth creation. AMP Bank also provides financing to AMP financial planning businesses. AMP Bank's products and services enable AMP to be relevant over a wider set of financial goals, earlier in the customer's life cycle and with higher customer interaction. AMP Bank distributes its solutions by leveraging AMP's advice network, brokers and directly.

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.

Commentary on the results

for the year ended 31 December 2018

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 profit attributable to shareholders of AMP Limited for the year ended 31 December 2018 was $28 million (2017: profit of $848 million).

Basic earnings per share for the year ended 31 December 2018 on a statutory basis were 1.0 cents per share (2017: 29.3 cents per share), influenced principally by remediation provisions. On an underlying basis, the earnings per share were 23.3 cents per share (2017: 35.5 cents per share).

Key performance measures were as follows:

- 2018 underlying profit of $680 million is down $360 million (-35%) from $1,040 million in 2017. This decrease largely reflects the impact of businesses subject to sale, with the operating earnings of retained businesses marginally weaker than in 2017, driven by lower earnings for Australian wealth management (-7%), offset by growth in AMP Capital (+7%) and AMP Bank (+6%).

- Australian wealth management earnings of $363 million declined 7% from 2017, driven by higher margin compression from MySuper repricing in Q4 2018, lower revenues from weaker investment markets and impairments to the carrying value of client registers in second half 2018.

- Australian wealth management net cash outflows were $3,968 million in 2018, down from net cashflows of $931 million in 2017 reflecting a range of factors including the impact of AMP's appearance at the Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission) in 2018.

- AMP Capital external net cashflows were $4,219 million, down from $5,477 million in 2017. External net cashflows were driven by strong flows into real asset classes (infrastructure and real estate), in part offset by lower cashflows from Asian based investors.

- 2018 operating loss of Australian and New Zealand wealth protection and mature businesses was $3 million, driven by capitalised losses and negative claims experience in second half 2018.

- Underlying return on equity decreased 4.7 percentage points to 9.6% in 2018 from 2017 reflecting reduced operating earnings in the Australian wealth protection business.

AMP's total assets under management (AUM) and administration were $258 billion at 31 December 2018 (2017: $257 billion).

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.

- *AMP Bank* – operating earnings increased $8 million (6%) to $148 million in 2018 from 2017. 2018 operating earnings were driven by residential mortgage book growth, as well as a reduction in investment platform deposit costs, partly offset by increases in other funding costs, additional loan provisions, as well as increased 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 AMP group attributable to shareholders of AMP Limited decreased to $6.7 billion at 31 December 2018 from $7.2 billion at 31 December 2017.

AMP remains well capitalised, with $1.7 billion in shareholder regulatory capital resources above minimum regulatory requirements (MRR) at 31 December 2018 ($2.3 billion at 31 December 2017).

AMP's final 2018 dividend is 4.0 cents per share, franked to 90%. This represents a full year 2018 dividend payout ratio of 60% of underlying profit. AMP will continue to offer the dividend reinvestment plan (DRP) to eligible shareholders. For the 2018 final dividend, no discount will apply to the DRP allocation price. AMP intends to issue new shares to participants in the DRP.

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.
- *Driving growth in AMP Bank:* to deliver solutions through broker and advice channels; to grow retail deposit base.
- *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 an 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/corporate governance.

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.

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

In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' to investigate conduct, practices, behaviour or business activities by financial services entities, including AMP, 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 AMP.

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

Other than this matter, 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.

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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 interests[1]			
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		**167**	176
Interest income, dividends and distributions and net gains or losses on financial assets and liabilities at fair value through profit or loss		**955**	11,069
Interest income earned using the effective interest method		**899**	819
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		**(1,701)**	(1,697)
Staff and related expenses		**(1,136)**	(1,078)
Other operating expenses		**(1,887)**	(1,054)
Finance costs		**(611)**	(585)
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)	1.3	**417**	(763)
Profit for the year		**51**	873
Profit attributable to shareholders of AMP Limited		**28**	848
Profit attributable to non-controlling interests		**23**	25
Profit for the year		**51**	873
Earnings per share		**cents**	**cents**
Basic	1.2	**1.0**	29.3
Diluted	1.2	**1.0**	29.1

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
Profit for the year		**51**	873
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Fair value reserve[1]			
- net gain (loss) on fair value asset reserve		**22**	(1)
- tax effect on fair value asset reserve gain or loss		**(7)**	-
		15	**(1)**
Cash flow hedges			
- net (loss) gain on cash flow hedges		**(37)**	4
- tax effect on cash flow hedge gain or loss		**11**	(1)
- amount transferred to profit for the year		**11**	10
- tax effect on amount transferred to profit for the year		**(3)**	(3)
		(18)	10
Translation of foreign operations and revaluation of hedge of net investments		**78**	(54)
		78	(54)
Items that will not be reclassified subsequently to profit or loss			
Fair value reserve - equity instruments held by AMP Foundation		**(4)**	-
		(4)	**-**
Defined benefit plans			
- actuarial (losses) gains	5.1	**(43)**	7
- tax effect on actuarial gains or losses		**12**	(2)
		(31)	5
Other comprehensive income (loss) for the year		**40**	(40)
Total comprehensive income for the year		**91**	833
Total comprehensive income attributable to shareholders of AMP Limited		**68**	808
Total comprehensive income attributable to non-controlling interests		**23**	25
Total comprehensive income for the year		**91**	833

1 Following the adoption of AASB 9, debt securities held by AMP Bank, previously classified as held-to-maturity and measured at amortised cost, have been classified as financial instruments measured at fair value through other comprehensive income.

Consolidated statement of financial position

as at 31 December 2018

	Note	2018 $m	2017 $m
Assets			
Cash and cash equivalents	7.1	**3,932**	3,602
Receivables	2.3	**2,608**	2,151
Current tax assets		**213**	7
Planner registers held for sale and prepayments		**101**	138
Investments in financial assets	2.1	**132,103**	136,675
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	1.3	**876**	686
Reinsurance asset - ceded life insurance contracts	4.2	**1,073**	804
Intangibles	2.2	**3,208**	3,218
Total assets of shareholders of AMP Limited, policyholders, external unitholders and non-controlling interests		**145,278**	148,239
Liabilities			
Payables	2.4	**2,032**	1,752
Current tax liabilities		**73**	71
Employee benefits		**316**	325
Other financial liabilities	2.1	**1,389**	591
Provisions	7.3	**807**	153
Interest-bearing liabilities	3.2	**21,650**	21,009
Deferred tax liabilities	1.3	**1,633**	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	5.1	**77**	29
Total liabilities of shareholders of AMP Limited, policyholders, external unitholders and non-controlling interests		**138,487**	140,956
Net assets of shareholders of AMP Limited and non-controlling interests		**6,791**	7,283
Equity			
Contributed equity	3.1	**9,502**	9,376
Reserves		**(1,931)**	(2,010)
Retained earnings		**(886)**	(164)
Total equity of shareholders of AMP Limited		**6,685**	7,202
Non-controlling interests		**106**	81
Total equity of shareholders of AMP Limited and non-controlling interests		**6,791**	7,283

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Equity attributable to shareholders of AMP Limited											
	Contributed equity $m	Demerger reserve[1] $m	Share-based payment reserve[2] $m	Capital profits reserve[3] $m	Fair value reserve $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	**9,376**	**(2,566)**	**100**	**329**	**7**	**26**	**94**	**(2,010)**	**(164)**	**7,202**	**81**	**7,283**
Impact of adoption of new accounting standards	-	-	-	-	3	-	-	3	(1)	2	-	2
Balance at the beginning of the year - restated	9,376	(2,566)	100	329	10	26	94	(2,007)	(165)	7,204	81	7,285
Profit	-	-	-	-	-	-	-	-	28	28	23	51
Other comprehensive income	-	-	-	-	11	(18)	78	71	(31)	40	-	40
Total comprehensive income	-	-	-	-	11	(18)	78	71	(3)	68	23	91
Share-based payment expense	-	-	26	-	-	-	-	26	-	26	1	27
Share purchases	-	-	(21)	-	-	-	-	(21)	-	(21)	(3)	(24)
Net sale/(purchase) of treasury shares	63	-	-	-	-	-	-	-	(6)	57	-	57
Dividends paid[4]	-	-	-	-	-	-	-	-	(715)	(715)	-	(715)
Dividends paid on treasury shares[4]	-	-	-	-	-	-	-	-	7	7	-	7
New capital from shares issued under dividend reinvestment plan	63	-	-	-	-	-	-	-	-	63	-	63
Sales and acquisitions of non-controlling interests	-	-	-	-	-	-	-	-	(4)	(4)	4	-
Balance at the end of the year	**9,502**	**(2,566)**	**105**	**329**	**21**	**8**	**172**	**(1,931)**	**(886)**	**6,685**	**106**	**6,791**
2017												
Balance at the beginning of the year	9,619	(2,566)	93	329	8	16	148	(1,972)	(185)	7,462	79	7,541
Profit	-	-	-	-	-	-	-	-	848	848	25	873
Other comprehensive income	-	-	-	-	(1)	10	(54)	(45)	5	(40)		(40)
Total comprehensive income	-	-	-	-	(1)	10	(54)	(45)	853	808	25	833
Share-based payment expense	-	-	27	-	-	-	-	27	-	27	1	28
Share purchases	(200)	-	(20)	-	-	-	-	(20)	-	(220)	(1)	(221)
Net sale/(purchase) of treasury shares	(43)	-	-	-	-	-	-	-	(3)	(46)	-	(46)
Dividends paid[4]	-	-	-	-	-	-	-	-	(837)	(837)	(22)	(859)
Dividends paid on treasury shares[4]	-	-	-	-	-	-	-	-	8	8	-	8
Sales and acquisitions of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the year	9,376	(2,566)	100	329	7	26	94	(2,010)	(164)	7,202	81	7,283

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 w as the difference betw een 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 AMP on the sale of minority interests in controlled entities to entities outside the AMP group.

4 Dividends paid include dividends paid on treasury shares. Dividends paid on treasury shares are required to be excluded from the consolidated financial statements by adjusting retained earnings.

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	2018 $m	2017 $m
Cash flows from operating activities[1]			
Cash receipts in the course of operations		**14,871**	18,067
Interest received		**2,140**	2,041
Dividends and distributions received[2]		**2,236**	2,137
Cash payments in the course of operations		**(22,100)**	(22,605)
Finance costs		**(613)**	(519)
Income tax paid		**(515)**	(519)
Cash flows from (used in) operating activities	7.1	**(3,981)**	(1,398)
Cash flows from investing activities[1]			
Net proceeds from sale of (payments to acquire):			
- investments in financial assets[3]		**4,355**	(2,614)
- operating and intangible assets		**(37)**	(46)
(Payments to acquire) proceeds from disposal of operating controlled entities and investments in associates accounted for using the equity method		**(113)**	(293)
Cash flows from (used in) investing activities		**4,205**	(2,953)
Cash flows from financing activities			
Net movement in deposits from customers		**1,357**	1,003
Proceeds from borrowings - non-banking operations[1]		**289**	391
Repayment of borrowings - non-banking operations[1]		**(216)**	-
Net movement in borrowings - banking operations		**(724)**	2,305
On market share buy-back		**-**	(200)
Proceeds from issue of subordinated debt		**250**	250
Repayment of subordinated debt		**(325)**	(150)
Dividends paid[4]		**(708)**	(828)
Cash flows from (used in) financing activities		**(77)**	2,771
Net increase/(decrease) in cash and cash equivalents		**147**	(1,580)
Cash and cash equivalents at the beginning of the year		**7,222**	8,810
Effect of exchange rate changes on cash and cash equivalents		**13**	(8)
Cash and cash equivalents at the end of the year[1]	7.1	**7,382**	7,222

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.

3 Net proceeds from sale of (payments to acquire) investments in financial assets also includes loans and advances made (net of payments) and purchases of financial assets (net of maturities) during the period by AMP Bank.

4 The Dividends paid amount is presented net of dividends on treasury shares.

About this financial information

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

(a) Understanding the AMP financial information

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

AMP 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 AMP 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 in the segment disclosures in note 1.1(b).

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 AMP 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 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 information, 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 information.

The financial information:

- is presented in Australian dollars with all values rounded to the nearest million dollars ($m), unless otherwise stated;
- 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 financial information.

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

(b) Basis of consolidation

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

About this financial information

Materiality
Information has only been included in the financial information 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 AMP group;
- it helps explain the impact of significant changes in the AMP group; and/or
- it relates to an aspect of the AMP 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 information 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.

Interest, dividends and distributions income
Interest income is recognised when the AMP group obtains control of the right to receive the interest. Revenue from dividends and distribution is recognised when the AMP 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

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 above and in the following notes:

Accounting judgements and estimates	Note		Page
Tax	1.3	Taxes	17
Fair value of financial assets	2.1	Investments in financial instruments	21
Impairment	2.1	Expected credit losses (ECLs)	21
Goodwill and acquired intangible assets	2.2	Intangibles	24
Life insurance and investment contract liabilities	4.1	Accounting for life insurance contracts and investment contracts	45
Consolidation	6.1	Controlled entities	68
Provisions and contingent liabilities	7.3	Provisions and contingent liabilities	74

Section 1: Results for the year

This section provides insights into how the AMP group has performed in the current year and provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the AMP group.

Statutory measures of performance disclosed in this report are:
- Statutory earnings per share (EPS) - basic and diluted
- Annual dividend
- Profit after tax attributable to the shareholders of AMP

Underlying profit is AMP's key measure of business performance. This performance measure is disclosed by the AMP operating segment within Segment performance.

- 1.1 Segment performance
- 1.2 Earnings per share
- 1.3 Taxes
- 1.4 Dividends

1.1 Segment performance

The AMP group identifies its operating segments based on separate financial information that is regularly reviewed by the Chief executive officer and his immediate team in assessing performance and determining the allocation of resources. The operating segments are identified according to the nature of profit generated and services provided, and their performance is evaluated based on a post-tax operating earnings basis.

Following the completion of the group's portfolio review, which resulted in the announced sale of the WP and mature businesses to Resolution as well as the announced intention to divest the New Zealand wealth management business, the manner in which management monitors the group's operations and makes decisions about those operations has significantly changed. Consequently, the composition of the group's operating segments has changed.

Reportable segment	Segment description
Australian wealth management (WM)	Financial advice services (through aligned and owned advice businesses), platform and software administration (including SMSF), unit linked superannuation, retirement income and managed investment products business in Australia. Superannuation products include personal and employer sponsored plans with insurance.
AMP Capital	A diversified investment manager with a growing international presence providing investment services for domestic and international customers. AMP Capital manages investments across major asset classes including equities, fixed interest, real estate, infrastructure and multi-manager and multi-asset funds. AMP Capital also provides commercial, industrial and retail real estate management services. On 1 March 2012, AMP Capital and Mitsubishi UFJ Trust and Banking Corporation (MUFG: Trust Bank) formed a strategic business and capital alliance. As part of that alliance, MUFG: Trust Bank acquired a 15% ownership interest in AMP Capital. The initial five year agreement between AMP Capital and MUFG: Trust Bank was renewed in the first quarter of 2017. In November 2013, AMP Capital established a funds management company in China with China Life called China Life AMP Asset Management Company Limited (CLAMP). AMP Capital is a founding shareholder, holding a 15% stake, with the balance held by China Life Asset Management Company, a subsidiary of China Life.
AMP Bank	Australian retail bank offering residential mortgages, deposits, transaction banking and SMSF products. It also has a portfolio of practice finance loans. AMP Bank distributes through AMP's aligned distribution network as well as third party brokers, and direct to retail customers via phone and online.
New Zealand wealth management (NZWM)	Encompasses the wealth management and financial advice and distribution business in New Zealand. Customers are provided with a variety of wealth management solutions including KiwiSaver, corporate superannuation, retail investments and a wrap investment management platform.
Australian and New Zealand wealth protection (WP) and mature	Australian WP includes individual and group term, disability and income protection insurance products. Products can be bundled with a superannuation product or held independently of superannuation. Australian mature is a business comprising 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). New Zealand WP and mature includes risk insurance and mature book (traditional participating business).

Segment information is not reported for activities of the AMP group office companies as it is not the function of these departments to earn revenue and any revenues earned are incidental to the activities of the AMP group.

Section 1: Results for the year

1.1 Segment performance (continued)

(a) Segment profit

2018	WM $m	AMP Capital[1] $m	AMP Bank $m	NZ WM $m	Aus & NZ WP & Mature $m	Total $m
Segment profit after income tax	**363**	**167**	**148**	**53**	**(3)**	**728**
2017						
Segment profit after income tax	391	156	140	54	331	1,072

1 AMP Capital segment revenue is reported net of external investment manager fees. Segment profit after income tax is reported net of 15% minority interest attributable to MUFG: Trust Bank.

(b) Reconciliations
Segment profit after income tax differs from Profit attributable to shareholders of AMP Limited due to the exclusion of the following items:

	2018 $m	2017 $m
Segment profit after income tax	**728**	1,072
Group office costs	**(76)**	(74)
Total operating earnings	**652**	998
Underlying investment income[1]	**96**	95
Interest expense on corporate debt	**(68)**	(53)
Underlying profit	**680**	1,040
Advice remediation and related costs	**(469)**	-
Royal Commission	**(32)**	-
Portfolio review and related costs	**(48)**	(24)
Risk management, governance and controls	**(8)**	-
Other items[2]	**(74)**	(21)
Amortisation of acquired intangible assets[3]	**(79)**	(80)
Profit (loss) before market adjustments and accounting mismatches	**(30)**	915
Market adjustment - investment income[1]	**(28)**	(39)
Market adjustment - annuity fair value[4]	**12**	4
Market adjustment - risk products[5]	**24**	(18)
Accounting mismatches[6]	**50**	(14)
Profit attributable to shareholders of AMP Limited	**28**	848
Profit attributable to non-controlling interests	**23**	25
Profit for the year	**51**	873

1 Underlying investment income consists of investment income on shareholder assets invested in income producing investment assets normalised by eliminating the impact of short-term market volatility on underlying performance. Underlying returns are set based on long-term expected returns for each asset class, except for a short-term return, equivalent to a one-year government bond, set annually for the implicit deferred acquisition costs (DAC) component of shareholder assets. Market adjustment - investment income is the excess (shortfall) between the underlying investment income and the actual return on shareholder assets invested in income producing investment assets.

2 Other items largely comprise the net of one-off and non-recurring revenues and costs, including the cost of implementing significant regulatory changes.

3 Amortisation of acquired intangibles includes amortisation of intangibles acquired through business combinations and notional intangibles included within the carrying value of equity accounted associates and acquired client registers.

4 Market adjustment - annuity fair value relates to the net impact of investment markets on AMP's annuity portfolio.

5 Market adjustment - risk products relates to the net impact of changes in market economic assumptions (bond yields and CPI) on the valuation of risk insurance liabilities.

6 Under Australian Accounting Standards, some assets held on behalf of the policyholders (and related tax balances) are recognised in the financial statements at different values to the values used in the calculation of the liability to policyholders in respect of the same assets. Therefore, movements in these policyholder assets result in accounting mismatches which impact profit attributable to shareholders. These differences have no impact on the operating earnings of the AMP group.

Section 1: Results for the year

1.2 Earnings per share

Basic earnings per share
Basic earnings per share is calculated based on profit attributable to shareholders of AMP Limited (AMP) and the weighted-average number of ordinary shares outstanding.

	2018	2017
Profit attributable to shareholders of AMP ($m)	**28**	848
Weighted average number of ordinary shares (millions)[1]	**2,897**	2,896
Basic earnings per share (cents per share)	**1.0**	29.3

Diluted earnings per share
Diluted earnings per share is based on profit attributable to shareholders of AMP Limited (AMP) and the weighted-average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares, such as options and performance rights.

Section 1: Results for the year

1.3 Taxes

Our taxes

This sub-section outlines the impact of income taxes on the results and financial position of AMP. 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
Profit (loss) before income tax	**(366)**	1,636
Policyholder tax credit (expense) recognised as part of the change in policyholder liabilities in determining profit before tax	**399**	(472)
Profit before income tax excluding tax charged to policyholders	**33**	1,164
Tax at the Australian tax rate of 30% (2017: 30%)	**(10)**	(349)
Shareholder impact of life insurance tax treatment	**(2)**	(33)
Tax concessions including research and development and offshore banking unit	**7**	8
Non-deductible expenses	**(23)**	(27)
Non-taxable income	**6**	16
Other items	**15**	24
Over provided in previous years	**8**	3
Utilisation of previously unrecognised tax losses	**8**	53
Differences in overseas tax rates	**9**	14
Income tax credit (expense) attributable to shareholders and non-controlling interest	**18**	(291)
Income tax credit (expense) attributable to policyholders	399	(472)
Income tax credit (expense) per Income statement	**417**	(763)

Section 1: Results for the year

1.3 Taxes (continued)

(b) Analysis of income tax expense

	2018 $m	2017 $m
Current tax expense	**(336)**	(536)
Increase in deferred tax assets	**190**	23
Decrease (increase) in deferred tax liabilities	**557**	(244)
Over (under) provided in previous years including amounts attributable to policyholders	**6**	(6)
Income tax expense	**417**	(763)

(c) Analysis of deferred tax balances

	2018 $m	2017 $m
Expenses deductible and income recognisable in future years	**702**	470
Unrealised movements on borrowings and derivatives	**30**	32
Unrealised investment losses	**41**	40
Losses available for offset against future taxable income	**45**	87
Other	**58**	57
Total deferred tax assets	**876**	686

Analysis of deferred tax liabilities

	2018 $m	2017 $m
Unrealised investment gains	**1,174**	1,736
Other	**459**	454
Total deferred tax liabilities	**1,633**	2,190

(d) Amounts recognised directly in equity

	2018 $m	2017 $m
Deferred income tax expense related to items taken directly to equity during the current year	**13**	(6)

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

	2018 $m	2017 $m
Revenue losses	**111**	108
Capital losses	**706**	117

Section 1: Results for the year

1.3 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;
- 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 AMP 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 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 AMP 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 AMP 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.

Section 1: Results for the year

1.4 Dividends

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

	2018 Final	2018 Interim	2017 Final	2017 Interim
Dividend per share (cents)	4.0	10.0	14.5	14.5
Franking percentage	90%	50%	90%	90%
Cost (in $m)	117	292	423	423
Payment date	28 March 2019	28 September 2018	28 March 2018	29 September 2017

	2018 $m	2017 $m
Dividends paid		
Previous year final dividend on ordinary shares	423	414
Interim dividend on ordinary shares	292	423
Total dividends paid[1]	715	837

1 Total dividends paid includes dividends paid on Treasury shares $7m (2017: $8m).

Dividend franking credits
Franking credits available to shareholders are $148m (2017: $275m), based on a tax rate of 30%. This amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the settlement, after the end of the reporting date, of liabilities for income tax and receivables for dividends.

The company's ability to utilise the franking account credits depends on meeting Corporations Act 2001 requirements to declare dividends. The impact of the proposed dividend will be to reduce the balance of the franking credit account by $45m.

Franked dividends are franked at a tax rate of 30%.

Section 2: Investments, intangibles and working capital

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

2.1 Investments in financial instruments

(a) Investments in financial instruments

	2018 $m	2017 $m
Financial assets measured at fair value through profit or loss[1]		
Equity securities and listed managed investment schemes	**55,894**	58,538
Debt securities[2]	**32,577**	32,457
Investments in unlisted managed investment schemes	**19,838**	22,398
Derivative financial assets	**1,059**	1,092
Other financial assets	**-**	5
Total financial assets measured at fair value through profit or loss	**109,368**	114,490
Financial assets measured at fair value through other comprehensive income		
Debt securities[3]	**2,355**	-
Equity securities	**60**	68
Total financial assets measured at fair value through other comprehensive income	**2,415**	68
Financial assets measured at amortised cost[4]		
Loans and advances	**20,098**	19,554
Debt securities	**222**	2,563
Total financial assets measured at amortised cost	**20,320**	22,117
Total financial assets	**132,103**	136,675
Other financial liabilities		
Derivative financial liabilities	**1,225**	489
Collateral deposits held[2]	**164**	102
Total other financial liabilities	**1,389**	591

1 Financial assets measured at fair value through profit or loss are mainly assets of the AMP life insurance entities' statutory funds and their controlled entities.
2 Included within debt securities are assets held to back the liability for collateral deposits.
3 Debt securities measured at fair value through other comprehensive income are assets of AMP Bank and were previously measured at amortised cost. Refer to note 7.5 for details of the classification change resulting from the adoption of AASB 9 *Financial Instruments* .
4 Financial assets measured at amortised cost are presented net of expected credit losses (ECLs) of $38m .

Section 2: Investments, intangibles and working capital

2.1 Investments in financial instruments (continued)

(b) The following table provides the changes to expected credit losses (ECLs) provisions relating to loans and advances during the year:

	Stage 1 collective $m	Stage 2 collective $m	Stage 3 $m	Total $m
ECL provisions at 1 January 2018[1]	3	12	14	29
New loans originated during the year	-	1	-	1
Loans derecognised or repaid during the year	-	(1)	(3)	(4)
Transfer to Stage 1	-	1	1	2
Transfer to Stage 2	-	-	3	3
Transfer to Stage 3	-	(2)	-	(2)
Increase in provisions during the year	7	-	4	11
Loans written off during the year	-	-	(2)	(2)
ECL Provisions	**10**	**11**	**17**	**38**

1 Includes $12m opening adjustment due to implementation of AASB 9.

Accounting policy – recognition and measurement

Recognition and derecognition of financial assets and liabilities
Financial assets and financial liabilities are recognised at the date the AMP 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, fair value through other comprehensive income (OCI), and amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the 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 de-recognised 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 fair value through OCI – debt securities
Debt securities are measured at fair value through OCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, 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

Fair value through OCI instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and impairment losses or reversals are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. The accumulated gains or losses recognised in OCI are recycled to profit and loss upon derecognition of the assets.

The group classifies debt securities held by AMP Bank under this category.

Financial assets measured at fair value through OCI – equity securities
Upon initial recognition, the group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The group elected to classify irrevocably equity investments held by AMP Foundation Limited, a controlled entity of the AMP group, under this category.

Section 2: Investments, intangibles and working capital

2.1 Investments in financial instruments (continued)

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.

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when AMP Bank provides money directly to a customer, including loans and advances to advisers, and with no intention of trading the financial asset. Loans and advances are initially recognised at fair value including direct and incremental transaction costs relating to loan origination. They are subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

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 cashflows due to the group in accordance with the contract and the cashflows that the group expects to receive, including from the realisation of any collateral.

The 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.

Other than ECL on trade receivables and debt securities, where a simplified approach is taken, the group applies a three-stage approach to measure the ECLs as follows:

Stage 1 (12-month ECL)
The group collectively assesses and recognises a provision at an amount equal to 12-month ECL when financial assets are current and/or have had a good performance history. It includes financial assets where the credit risk has improved, and the financial assets have been reclassified from stage 2 or even stage 3 based on improved performance observed over a pre-defined period of time. A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2 (Lifetime ECL - not credit impaired)
The group collectively assesses and recognises a provision at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. Financial assets that were 30 days past due at least once over the last 6 months are deemed to have significant increase in credit risk since initial recognition. For loans and advances, other risk factors like hardship, loan to value ratio (LVR) and loan to income ratio (LTI) are also considered in order to determine a significant increase in credit risk.

Stage 3 (Lifetime ECL - credit impaired)
The group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment. Financial assets are classified as impaired when payment is 90 days past due or when there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis.

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 Section 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 independencies. Elements of the ECL models that are considered accounting estimates and judgements include:

- AMP group’s internal grading which assigns PDs to the individual grades
- AMP 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
- 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**
Cost	***2,906***	***1,646***	***1,191***	***393***	***110***	***6,246***
Accumulated amortisation and impairment	***(776)***	***(1,141)***	***(771)***	***(255)***	***(95)***	***(3,038)***
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
Cost	*2,899*	*1,457*	*1,191*	*360*	*110*	*6,017*
Accumulated amortisation and impairment	*(776)*	*(1,023)*	*(693)*	*(213)*	*(94)*	*(2,799)*

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

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 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 subsequently 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 in-force business – wealth management and distribution businesses	10 years
Value 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.

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 group's operating segments, as disclosed in note 1.1, the composition of the group's CGUs has changed. The revised CGUs as at 31 December 2018 and the goodwill attributable to shareholders allocated to each CGU is 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 5 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;
- 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 have 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;
- assessment of whether there are any impairment indicators for acquired intangibles and, where required, in determining the recoverable amount.

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	**428**	361
Total receivables[1]	**2,608**	2,151
Current	*2,603*	*2,129*
Non-current	*5*	*22*

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

Accounting policy – recognition and measurement
Receivables
Investment related receivables and Life insurance contract premium receivables back 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 group applies a simplified approach in calculating ECLs for receivables. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The 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	**965**	695
Reinsurance payables	**3**	-
Total payables	**2,032**	1,752
Current	*1,908*	*1,635*
Non-current	*124*	*117*

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.

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.

2018	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	**55,954**	**52,821**	**769**	**2,364**	**55,954**
Debt securities	**34,932**	**1,978**	**32,837**	**117**	**34,932**
Investments in unlisted managed investment schemes	**19,838**	**-**	**17,940**	**1,898**	**19,838**
Derivative financial assets	**1,059**	**393**	**666**	**-**	**1,059**
Investment properties	**145**	**-**	**-**	**145**	**145**
Other financial assets	**-**	**-**	**-**	**-**	**-**
Total financial assets measured at fair value	**111,928**	**55,192**	**52,212**	**4,524**	**111,928**
Financial assets not measured at fair value					
Loans and advances	**20,098**	**-**	**-**	**20,101**	**20,101**
Debt securities	**222**	**-**	**225**	**-**	**225**
Total financial assets not measured at fair value	**20,320**	**-**	**225**	**20,101**	**20,326**
Financial liabilities measured at fair value					
Derivative financial liabilities	**1,225**	**225**	**1,000**	**-**	**1,225**
Collateral deposits held	**164**	**-**	**164**	**-**	**164**
Investment contract liabilities	**68,742**	**-**	**1,810**	**66,932**	**68,742**
Total financial liabilities measured at fair value	**70,131**	**225**	**2,974**	**66,932**	**70,131**
Financial liabilities not measured at fair value					
AMP Bank					
- Deposits	**11,012**	**-**	**11,012**	**-**	**11,012**
- Other	**8,103**	**-**	**8,062**	**-**	**8,062**
AMP Corporate entities - bonds and notes	**2,154**	**-**	**2,177**	**-**	**2,177**
Borrowings within investment entities controlled by AMP Life statutory funds	**381**	**-**	**381**	**-**	**381**
Total financial liabilities not measured at fair value	**21,650**	**-**	**21,632**	**-**	**21,632**
2017					
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	58,606	55,942	728	1,936	58,606
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	1,092	210	882	-	1,092
Investment properties	134	-	-	134	134
Other financial assets	5	-	5	-	5
Total financial assets measured at fair value	114,692	56,153	54,923	3,616	114,692
Financial assets not measured at fair value					
Loans and advances	19,554	-	19,549	-	19,549
Debt securities - held to maturity	2,563	-	2,567	-	2,567
Total financial assets not measured at fair value	22,117	-	22,116	-	22,116
Financial liabilities measured at fair value					
Derivative financial liabilities	489	148	341	-	489
Collateral deposits held	102	-	102	-	102
Investment contract liabilities	75,235	-	2,028	73,207	75,235
Total financial liabilities measured at fair value	75,826	148	2,471	73,207	75,826
Financial liabilities not measured at fair value					
AMP Bank:					
- Deposits	9,655	-	9,653	-	9,653
- Other	8,819	-	8,867	-	8,867
Corporate entity borrowings	1,938	-	1,992	-	1,992
Borrowings within investment entities controlled by AMP Life statutory funds	597	-	597	-	597
Total financial liabilities not measured at fair value	21,009	-	21,109	-	21,109

Section 2: Investments, intangibles and working capital

2.5 Fair value information (continued)

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

Listed equity securities and listed managed investment schemes	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.
Debt securities	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.
Loans	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 amount.
Unlisted managed investment schemes	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.
Derivative financial assets and liabilities	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.
Corporate borrowings	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
AMP Bank deposits and other borrowings	The estimated fair value of deposits and other borrowings represents the discounted amount of estimated future cash flows expected to be paid based on the residual maturity of these liabilities. The discount rate applied is based on a current yield curve appropriate for similar types of deposits and borrowings at the reporting date.
Investment properties	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.
Investment contract liabilities	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)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Section 2: Investments, intangibles and working capital

2.5 Fair value information (continued)

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.

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

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 AMP 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.

AMP Limited 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. AMP'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 discounts rate 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**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 AMP 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 AMP group cease to consolidate a controlled entity.

Section 3: Capital structure and financial risk management

This section provides information relating to:
- AMP 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 AMP group consists of equity and debt. AMP determines the appropriate capital structure in order to finance the current and future activities of the AMP 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

3.1 Contributed equity

	2018 $m	2017 $m
Issued capital [1,3]		
2,937,428,336 (2017: 2,918,469,137) ordinary shares fully paid	**9,610**	9,547
Treasury shares [2]		
21,102,496 (2017: 32,887,493) Treasury shares	**(108)**	(171)
Total contributed equity		
2,916,325,840 (2017: 2,885,581,644) ordinary shares fully paid	**9,502**	9,376

	2018 $m	2017 $m
Issued capital		
Balance at the beginning of the year	**9,547**	9,747
18,959,199 (2017: Nil) shares issued under dividend reinvestment plan[1]	**63**	-
Nil (2017: 39,268,827) on-market share buy-back	-	(200)
Balance at the end of the year	**9,610**	9,547

	2018 $m	2017 $m
Treasury shares		
Balance at the beginning of the year	**(171)**	(128)
Decrease (increase) due to purchases less sales during the year	**63**	(43)
Balance at the end of the year	**(108)**	(171)

Holders of ordinary shares have the right to receive dividends as declared and, in the event of the w inding 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.

1 Under the terms of the dividend reinvestment plan (DRP), shareholders may elect to have all or part of their dividend entitlements satisfied in shares rather than being paid cash. The DRP applied for the 2017 final dividend (paid in March 2018) at 14.5 cents per share and 2018 interim dividend (paid in September 2018) at 10.0 cents per share. AMP settled the DRP for the 2017 final dividend by acquiring shares on market and, accordingly, no new shares w ere issued. AMP settled the DRP for the 2018 interim dividend by issuing shares at $3.35 per share.

2 Of the AMP Limited ordinary shares on issue 18,976,109 (2017: 30,761,106) are held by AMP Life on behalf of policyholders. ASIC has granted relief from restrictions in the *Corporations Act 2001* to allow AMP Life to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. The cost of the investment in these treasury shares is reflected as a deduction from total contributed equity. The remaining balance is held by AMP Foundation Limited as trustee for the AMP Foundation.

3 Mitsubishi UFJ Trust and Banking Corporation (MUFG: Trust Bank) has an option to require AMP Limited to purchase MUFG: Trust Bank's interest in AMP Capital Holdings Limited (AMPCH) in certain circumstances. As consideration for the acquisition of AMPCH shares, AMP w ould be required to issue ordinary shares in AMP Limited to MUFG: Trust Bank (or its nominee).

Section 3: Capital structure and financial risk management

3.1 Contributed equity (continued)

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 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.

Treasury shares
The AMP group is not permitted to recognise Treasury shares in the Consolidated statement of financial position. These shares, plus any corresponding Consolidated income statement fair value movement on the shares and dividend income, are eliminated on consolidation. However, the corresponding investment contract and life insurance contract liabilities, and related Consolidated income statement change in the liabilities, remain on consolidation. At the AMP group consolidated level, the mismatch results in policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

The AMP Foundation also holds AMP Limited shares. These shares, plus any corresponding Consolidated income statement fair value movement on the shares and any dividend income, are also eliminated on consolidation. As the net assets and profit of the AMP Foundation Trust are fully attributable to non-controlling interests, this has no impact on the net assets or profit attributable to the shareholders of AMP Limited.

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						
AMP Bank						
- Deposits[1]	**10,942**	**70**	**11,012**	9,627	28	9,655
- Other	**2,255**	**5,848**	**8,103**	3,382	5,437	8,819
Corporate entity borrowings[2]						
- 6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	**-**	**68**	**68**	-	69	69
- AMP Notes 2 (first call 2018, maturity 2023)[3]	**-**	**-**	**-**	-	324	324
- AMP Notes 3 (first call 2023, maturity 2028)[4]	**-**	**251**	**251**	-	-	-
- AMP Wholesale Capital Notes[5]	**-**	**277**	**277**	-	276	276
- AMP Capital Notes - 2015[5]	**-**	**264**	**264**	-	264	264
- AMP Subordinated Notes - 2017[6]	-	**250**	**250**	-	250	250
- Syndicated loan facility[7]	**488**	**-**	**488**	-	497	497
- Commercial paper	**259**	**-**	**259**	229	-	229
- Medium Term Notes[8]	**-**	**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	**14,023**	**7,627**	**21,650**	13,355	7,654	21,009

1 Deposits comprise at call customer cash on deposit and customer term deposits at variable interest rates within the AMP Bank.

2 The current / non-current classification of corporate entity borrowings is based on the maturity of the underlying debt instrument. The carrying value of corporate entity borrowings includes interest payable of $9m (2017: $8m) which is expected to be settled within the next 12 months.

3 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.

4 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.

5 AMP Wholesale Capital Notes and AMP Capital Notes were issued on 27 March and 30 November 2015, respectively. They are perpetual notes with no maturity date. In certain circumstances, AMP may be required to convert some or all of the Notes into AMP ordinary shares.

6 Floating Rate Subordinated Unsecured Notes were issued on 1 September 2017 and mature 1 December 2027. AMP has the right, but not the obligation, to redeem all or some of the notes on 1 December 2022 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.

7 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.

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

Section 3: Capital structure and financial risk management

3.2 Interest-bearing liabilities (continued)

(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	**17,928**	16,495
Used	**(4,627)**	(3,520)
Unused facilities at the end of the year[1]	**13,301**	12,975

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.

(c) Changes in liabilities arising from financing activities

	2018 $m	2017 $m
1 January	**21,009**	17,218
Cashflows	**631**	3,799
Other	**10**	(8)
31 December	**21,650**	21,009

Accounting policy – recognition and measurement

Interest-bearing liabilities, other than those held by controlled entities of the AMP Life 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 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 statutory funds are subsequently measured at fair value with movements recognised in the Consolidated income statement.

It is AMP's policy to hedge currency and interest rate risk arising on issued bonds and subordinated debt. When fair value hedge accounting is applied, the carrying amounts of borrowings and subordinated debt are adjusted for changes in fair value related to the hedged risk 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 cashflow 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;

(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. Change in fair value of derivatives in effective cashflow 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.

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 AMP 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;
- 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 AMP group, which could lead to an impact on the AMP 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 AMP 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.	AMP group's long-term borrowings and subordinated debt.	Interest rate risk is managed by entering into interest rate swaps, which have the effect of converting borrowings from floating rate to fixed rate.
	Interest bearing investment assets of the shareholder and statutory funds of AMP Life.	AMP Life manages interest rate and other market risks pursuant to an asset and liability management policy and are also subject to the relevant regulatory requirements governed by the Life Act.
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.	AMP Bank interest rate risk from mismatches in the repricing terms of assets and liabilities (term risk) and variable rate short-term repricing bases (basis risk).	AMP Bank uses natural offsets, interest rate swaps and basis swaps to hedge the mismatches within exposure limits. Group Treasury manages the exposure in AMP Bank by maintaining a net interest rate risk position within the limits delegated and approved by the AMP Bank Board.
Currency risk The risk of an impact on the AMP 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 AMP 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 AMP 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 AMP 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 shareholder 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.

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;
- 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)**	**Impact on equity[1] Increase (decrease)**	**Impact on profit after tax Increase (decrease)**	**Impact on equity[1] Increase (decrease)**
		$m	**$m**	**$m**	**$m**
Interest rate risk Impact of a 100 basis point (bp) change in Australian and international interest rates.	- 100bp	(8)	2	(3)	(33)
	+100bp	(4)	(18)	(15)	9
Currency risk Impact of a 10% movement of exchange rates against the Australian dollar on currency sensitive monetary assets and liabilities.	10% depreciation of AUD	3	119	4	130
	10% appreciation of AUD	(4)	(99)	(5)	(107)
Equity price risk Impact of a 10% movement in Australian and international equities. Any potential impact on fees from the AMP group's investment linked business in is not included.	10% increase in:				
	Australian equities	8	8	10	10
	International equities	6	6	7	7
	10% decrease in:				
	Australian equities	(10)	(10)	(10)	(10)
	International equities	(8)	(8)	(9)	(9)

1 Included in the impact on equity is 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 AMP 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. **Refinancing risk** The risk that the AMP group is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.	AMP group corporate debt portfolio, AMP Bank and AMP Capital through various investment funds, entities or mandates that AMP manages or controls within the AMP 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. 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 AMP group debt.

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 AMP group's undiscounted financial liabilities and off-balance sheet items 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.

2018	Up to 1 year or no term $m	1-5 years $m	Over 5 years $m	Not specified $m	Total $m
Non-derivative financial liabilities					
Payables	**1,908**	**119**	**-**	**5**	**2,032**
Borrowings	**13,915**	**6,018**	**980**	**-**	**20,913**
Subordinated debt	**67**	**346**	**1,425**	**-**	**1,838**
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**	**45**	**13**	**-**	**66**
Foreign currency forward contract	**10**	**-**	**-**	**-**	**10**
Off-balance sheet items					
Credit-related commitments - AMP Bank[2]	**3,396**	**-**	**-**	**-**	**3,396**
Total undiscounted financial liabilities and off-balance sheet items	**19,676**	**7,549**	**3,510**	**83,530**	**114,265**

2017	Up to 1 year or no term $m	1-5 years $m	Over 5 years $m	Not specified $m	Total $m
Non-derivative financial liabilities					
Payables	1,635	4	15	98	1,752
Borrowings	14,380	5,011	1,141	-	20,532
Subordinated debt	65	255	1,162	-	1,482
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	7	26	22	-	55
Off-balance sheet items					
Credit-related commitments - AMP Bank[2]	3,606	-	-	-	3,606
Total undiscounted financial liabilities and off-balance sheet items[3]	20,436	5,999	3,629	87,257	117,321

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 Loan commitments are off-balance sheet as they relate to unexercised commitments to lend to customers of AMP Bank.

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

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 AMP 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 AMP 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. 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 on the invested fixed income portfolios in the AMP Life 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.
	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.
	Credit risk arising in AMP Bank as part of lending activities and management of liquidity.	Managed as prescribed by AMP Bank's Risk Appetite Statement and reported to AMP Bank ALCO monthly. Specific detail relating to credit risk management of the AMP Bank loan portfolio is outlined below.

The AMP Concentration & 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 AMP Group's capital position are managed by Group Treasury within limits set by the AMP Concentration & Credit Default Risk Policy.

Impairment assessment

Definition of default

AMP Bank considers a financial assets defaulted and hence Stage 3 impaired when payment is 90 days past due or when there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis.

AMP Bank's internal risk grading and PD estimation process

AMP Bank's credit risk management department runs expected credit loss models for the residential mortgage book as well as the practice finance loans.

- The Bank's residential mortgage book is a portfolio with a low default history so point-in-time (PIT) benchmark PDs are utilised across the portfolio by LVR band and time since origination.

Internal risk grades for residential Mortgage book are as follows:

Internal credit rating grade	Internal credit rating grade description
Performing	Not in arrears in the past 6 months
Past due but not impaired	Accounts in arrears but have not been past 90 days in the last 6 months
Impaired	90 days past due over the last six months

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(c) Credit risk (continued)

- For practice finance loans a Probability of Default risk grade model is applied that includes weighted risk factors such as Interest Coverage Ratio, Revenue growth, Licence Compliance Rating, Experience in business and arrears levels. Practices with outstanding annual reviews are also downgraded. Credit judgement may be applied to arrive at the final risk grade.

Internal risk grades for practice finance book are as follows:

Internal risk grade	Internal risk Grade description	Broadly corresponds with Standard & Poor ratings of
A to H	Sub-investment Grade	BB+ to CCC
I	Impaired	D

The Bank's interbank and financial institutions exposures as well as exposures to interest bearing securities is based on external credit rating of the counterparties as follows:

Internal risk grade description	Broadly corresponds with Standard & Poor ratings of
Senior Investment Grade	AAA to A-
Investment Grade	BBB+ to BBB-
Sub-investment Grade	BB+ up to but not including defaulted or impaired

Exposure at default (EAD)

EAD is modelled by applying assumptions in relation to the amortisation of the loans based on scheduled principal and interest repayments.

Loss given default (LGD)

For the residential mortgage portfolio the key driver for the LGD calculation is the value of the underlying property given in a foreclosure scenario the proceeds from the sale of a property are secured by the Bank to repay the loan in the event of default. The value of the underlying residential property is captured via the Loan-to-Value Ratio (LVR) which factors both changes in balance and estimated value of the collateral using market data and indices. Both floor and haircuts are applied to provide for model risk.

For practice finance loans, the LGD is calculated via assumptions to the reduction in valuations of practices (being a multiple of their recurring cashflows) in the event of default, such as client run-off or deterioration in valuation due to compliance issues.

Grouping of financial assets for expected credit losses (ECL) calculation

Asset classes where the bank calculates ECL on individual basis include all stage 3 assets, interbank and debt securities at FVOCI.

For all other asset classes ECL is calculated on a collective basis taking into account risk factors for each loan and arriving at the ECL estimate and then aggregating the number for the relevant portfolio.

Forward looking information

The Bank's ECL models incorporates a number of forward-looking Macroeconomic scenarios (MEF) that are reviewed on a quarterly basis and approved by the Credit Risk Committee (CRC). The MEF factors include unemployment, property prices, ASX Index, and Cash Rate.
At least three different scenarios with fixed weighting are used in the model. The weightings are reviewed on annual basis.
The ECL is calculated as the probability weighted average of the provision calculated for each economic scenario.

Write-offs

Financial assets are written off either partially or in their entirety only when there is no reasonable expectation of recovery. Recovery actions can cease if it is determined as being no longer cost effective or in some situations where the customer have filed for bankruptcy.

Credit risk of the loan portfolio in AMP Bank

The Bank is predominantly a lender for residential properties - both owner occupied and for investment. In every case the Bank completes a credit assessment, which includes cost of living allowance and requires valuation of the proposed security property. Approximately 20% of the Bank's residential loan portfolio is externally securitised and all loans in securitisation trusts are loans that have LMI thereby further mitigating the risk. The Bank's CRC and BRC oversee trends in lending exposures and compliance with the Risk Appetite Statement. The Bank secures its housing loans with mortgages over relevant properties and as a result manages credit risk on its loans with conservative lending policies and particular focus on the loan to value ratio (LVR). The LVR is calculated by dividing the total loan amount outstanding by the lower of the Bank's approved valuation amount or the purchase price. Loans with LVR greater than 80% are fully mortgage insured. Mortgage insurance is provided by Genworth Mortgage Insurance Australia Ltd and QBE Lenders Mortgage Insurance Ltd who are both regulated by APRA. The Bank has strong relationships with both insurers and experienced minimal levels of historic claim rejections and reductions.

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(c) Credit risk (continued)

The average LVR at origination of AMP Bank's loan portfolio for existing and new business is set out in the following table:

LVR	Existing business 2018 %	New business 2018 %	Existing business 2017 %	New business 2017 %
0 - 50	**18**	**15**	18	12
51 - 60	**12**	**10**	12	12
61 - 70	**18**	**16**	18	17
71 - 80	**37**	**44**	36	47
81 - 90	**11**	**8**	12	6
91 - 95	**4**	**7**	4	6
> 95	**-**	**-**	-	-

Renegotiated loans
Where possible, AMP Bank seeks to restructure loans for borrowers seeking hardship relief rather than take possession of collateral. This may involve capitalising interest repayments for a period and increasing the repayment arrangement for the remaining term of the loan. Once the terms have been renegotiated, the loan is no longer considered past due. AMP Bank assisted customers by renegotiating $165m (2017: $88m) worth of loans during the year, that otherwise would be past due or impaired.

Collateral and master netting or similar agreements
The AMP 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 AMP 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 as well as the clearing of derivative positions on the London Clearing House.

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 AMP 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 $1,059m would be reduced by $180m to the net amount of $879m and derivative liabilities of $1,225m would be reduced by $180m to the net amount of $1,045m (2017: derivative assets of $1,092m would be reduced by $154m to the net amount of $938m and derivative liabilities of $489m would be reduced by $154m to the net amount of $335m).

(ii) Repurchase agreements
Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life entities' statutory funds and controlled entities of the life entities' statutory funds. 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 $8m would be reduced by $8m to the net amount of $nil).

(iii) Other collateral
The AMP group has collateral arrangements in place with some counterparties in addition to collateral deposits held with respect to repurchase agreements. The amount and type of collateral required by AMP Bank on housing loans depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

AMP Bank holds collateral against its loans and advances primarily in the form of mortgage interests over property, other registered securities over assets and guarantees.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. In the event of customer default, AMP Bank can enforce any security held as collateral against the outstanding claim. Any loan security is usually held as mortgagee in possession while AMP Bank seeks to realise its value through the sale of property. Therefore, AMP Bank does not hold any real estate or other assets acquired through the repossession of collateral.

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 $165m (2017: $94m) of collateral deposits (due to other counter-parties) and $78m (2017: $41m) of collateral loans (due from other counter-parties) relating to derivative assets and liabilities.

Section 3: Capital structure and financial risk management

3.4 Derivatives and hedge accounting

The group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the 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 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.

2018		Notional amount $m	Fair value Assets $m	Fair value Liabilites $m
Hedge type	**Hedging instrument**			
Cash flow	Interest rate swaps	**8,467**	**5**	**19**
Fair value	Cross-currency swaps	**147**	**-**	**22**
Fair value	Interest rate swaps	**127**	**9**	**-**
Fair value and cash flow	Cross-currency swaps	**305**	**3**	**-**
Net investment	Foreign currency forward contract	**343**	**-**	**7**
Total		**9,389**	**17**	**48**

2017		Notional amount $m	Fair value Assets $m	Fair value Liabilites $m
Hedge type	**Hedging instrument**			
Cash flow	Interest rate swaps	8,862	18	11
Fair value	Cross-currency swaps	145	-	25
Fair value	Interest rate swaps	123	11	-
Fair value and cash flow	Cross-currency swaps	-	-	-
Net investment	Foreign currency forward contract	376	4	1
Total		9,506	33	37

Derivative instruments accounted for as cash flow hedges
The 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 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 AMP group recognised $nil (2017: $nil) due to ineffectiveness on derivative instruments designated as cash flow hedges.

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

Section 3: Capital structure and financial risk management

3.4 Derivatives and hedge accounting (continued)

Hedges of net investments in foreign operations
The 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 AMP 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 derivative instruments in a hedge relationship.

2018	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Interest rate swaps	**2,812**	**3,106**	**1,720**	**956**	**8,594**
Cross-currency swaps	**-**	**-**	**452**	**-**	**452**
Foreign currency forward contract	**327**	**16**	**-**	**-**	**343**

2017	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Interest rate swaps	1,967	3,889	2,649	480	8,985
Cross-currency swaps	-	-	145	-	145
Foreign currency forward 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 are 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 are 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.

Section 3: Capital structure and financial risk management

3.5 Capital management

AMP 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;
- maintain the AMP group's credit rating.

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

Calculation of capital resources
The AMP group's capital resources include ordinary equity and interest-bearing liabilities. The AMP group excludes the interest-bearing liabilities of its banking subsidiary, AMP Bank Limited, and controlled investment subsidiaries and trusts from the AMP group capital resources.

In determining the capital resources the AMP group needs to make adjustments to the statutory shareholder equity. Under Australian Accounting Standards, some assets held on behalf of the policyholders (and related tax balances) are recognised in the financial information at different values to the values used in the calculation of the liability to policyholders in respect of the same assets. Therefore, movements in these policyholder assets result in accounting mismatches which impact the statutory equity attributable to shareholders of AMP Limited. Mismatches arise on the following items:

- Treasury shares (AMP Limited shares held by the statutory funds on behalf of policyholders);
- AMP Life Limited statutory funds' investments in controlled entities;
- AMP Life Limited statutory funds' superannuation products invested in AMP Bank Limited assets.

Adjustments are also made relating to cash flow hedge reserves and to exclude the net assets of the AMP Foundation.

The table below shows the AMP group's capital resources at reporting date:

	2018 $m	**2017 $m**
AMP statutory equity attributable to shareholders of AMP Limited	**6,685**	7,202
Accounting mismatch, cash flow hedge resources and other adjustments	**(2)**	74
AMP shareholder equity	**6,683**	7,276
Subordinated debt[1]	**876**	951
Senior debt[1]	**973**	730
Total AMP capital resources	**8,532**	8,957

1 Amounts shown for subordinated debt and senior debt are the amounts to be repaid on maturity.

Capital requirements
A number of the operating entities within the AMP 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 (AMP Life)	Capital adequacy requirements as specified under the APRA Life Insurance Prudential Standards
AMP Bank Limited (AMP Bank)	Capital requirements as specified under the APRA ADI 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

AMP's businesses and the AMP group maintain capital targets reflecting their material risks (including financial risk, product and insurance risk and operational risk) and AMP's risk appetite. The target surplus is a management guide to the level of excess capital that the AMP group seeks to carry to reduce the risk of breaching MRR.

AMP Limited, AMP Life and AMP Bank have Board approved minimum capital levels above APRA requirements, with additional capital targets held above these amounts. Within the life insurance business, the capital targets above Board minimums have been set to a less than 10% probability of capital resources falling below the Board minimum over a 12 month period. Capital targets are also set for AMP Capital to cover risk associated with seed and sponsor capital investments and operational risk. Other components of AMP group's capital targets include amounts relating to Group Office investments, defined benefit funds and other operational risks.

All of the AMP 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 AMP'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 information, 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 the 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.

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 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 to. 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.

Section 4: Life insurance and investment contracts

4.1 Accounting for life insurance and investment contracts (continued)

Critical accounting judgments 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.

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.

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		
Best estimate liability		
- 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)
Value of future profits		
- 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 method[1]	**13,112**	13,082
Life insurance contract liabilities determined using accumulation method		
Best estimate liability		
- 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 liabilities[1]	**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 w ithin 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 cashflow s under the 60% quota share reinsurance arrangement w ith Gen Re, Munich Re and Sw iss Re, in return for upfront commission received. It also reflects the reinsurance position of the surplus reinsurance arrangement w ith Gen Re and Sw iss 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

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:

			31 December 2018		31 December 2017	
Business type		Basis[1]	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 AMP group. Unit costs vary by product line and class of business based on an apportionment that is supported by expense analyses.

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

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 polices.

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.

	31 December 2018		31 December 2017	
Business type	**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.

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
- 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 - % of IA95-97	
Conventional	**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

	Retail Lump Sum % of table	
Risk products	**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.

	Male - % of IML00*	Female - % of IFL00*
Annuities		
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.

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.

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 *A graduation of the 2004-2008 Lump Sum Investigation Data.* 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.

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 are allocated to policyholders.

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)

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 results 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+.

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
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability)	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of the Life Companies. Premium rates for yearly renewable business are not guaranteed and may be changed at the discretion of the Life Companies 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.
Life annuity contracts	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.
Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)	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.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance 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.

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.

		Change in life insurance contract liabilities		Change in shareholder profit after income tax and equity	
Variable	Change in variable	Gross of reinsurance $m	Net of reinsurance $m	Gross of reinsurance $m	Net of reinsurance $m
Mortality	10% increase in mortality rates	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

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance and investment contracts

(a) Analysis of life insurance and investment contract profit

	2018 $m	2017 $m
Components of profit (loss) 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)
- capitalised (losses) 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	**Investment-linked**	**Total life entities' statutory funds**	**Non-investment linked**	**Investment-linked**	**Total life entities' statutory funds**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Net assets of life entities' statutory funds attributable to policyholders and shareholders	**27,324**	**66,659**	**93,983**	28,133	72,884	101,017
Attributable to policyholders[2]						
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	2017
	$m	$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

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 multiple[1]	**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 information 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

5.1 Defined benefit plans

AMP 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 is 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 recommended contributions	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 (losses) 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).

Section 5: Employee disclosures

5.1 Defined benefit plans (continued)

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

	Defined benefit obligation		Fair value of plan assets	
	2018	**2017**	**2018**	**2017**
	$m	**$m**	**$m**	**$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

(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 / (losses)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
AMP Australian	263	279	(307)	(307)	(44)	(28)	(15)	8
AMP AAPH Australian	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

(c) 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

(d) 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

5.1 Defined benefit plans (continued)

(e) 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
	$m	$m	$m	$m
Expected employer contributions	-	-	1	-
Weighted average duration of the defined benefit obligation	11 years	8 years	13 years	13 years

Accounting policy – recognition and measurement

Defined benefit plans
The AMP 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 6: Group entities

This section explains significant aspects of the AMP 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 Bank Limited	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

Investments in investment entities controlled by the AMP Life 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 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 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 statutory funds

In the course of normal operating investment activities, the AMP Life statutory funds acquire equity interests in entities which, in some cases, result in AMP 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 the life entity's statutory funds are operating companies which carry out business operations unrelated to the core wealth management operations of the AMP 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 2018 %	Ownership interest 2017 %	Carrying amount[1] 2018 $m	Carrying amount[1] 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 w ithin the AMP Group have been appointed investment manager, therefore the group is considered to have significant influence.

3 The AMP Group has significant influence through representation on the entity's Board.

(b) Investments in significant associates held by the life entities' 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 AMP and do not have a material impact on the financial performance or net financial position of the AMP 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 AMP 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 AMP group's share of the associates' net assets, less any impairment in value. The AMP 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 Limited entity		
Dividends and interest from controlled entities	**545**	890
Interest revenue - other entities	**-**	-
Service fee revenue	**4**	8
Other Income	**1**	-
Operating expenses	**(3)**	(8)
Impairment	**(2,489)**	-
Finance costs	**(55)**	(45)
Income tax credit[1]	**17**	49
Profit (loss) for the year	**(1,980)**	894
Total comprehensive (loss) income for the year	**(1,980)**	894
(b) Statement of financial position - AMP Limited entity		
Current assets		
Cash and cash equivalents	**8**	3
Receivables and prepayments[2]	**57**	99
Current tax assets	**130**	-
Loans and advances to subsidiaries	**1,007**	1,191
Non-current assets		
Investments in controlled entities	**9,911**	12,400
Deferred tax assets[3]	**47**	91
Total assets	**11,160**	13,784
Current liabilities		
Payables[2]	**239**	106
Current tax liabilities	**-**	47
Provisions	**1**	5
Non-current liabilities		
Subordinated debt[4]	**1,043**	1,116
Total liabilities	**1,283**	1,274
Net assets	**9,877**	12,510
Equity - AMP Limited entity		
Contributed equity	**9,610**	9,547
Share based-payment reserve	**21**	22
Retained earnings[5]	**246**	2,941
Total equity	**9,877**	12,510

1 Dividend income from controlled entities $514m (2017: $866m) is not assessable for tax purposes. Income tax credit includes $8m (2017: $53m) utilisation of previously unrecognised tax losses.

2 Receivables and payables include tax-related amounts receivable from subsidiaries $53m (2017: $52m) and payable to subsidiaries $207m (2017: $75m).

3 Deferred tax assets include amounts recognised for losses available for offset against future taxable income $45m (2017: $87m)

4 AMP Limited entity is the issuer of: AMP Wholesale Capital Notes; AMP Capital Notes - 2015, AMP Subordinated Notes - 2017 and AMP Notes 3. Further information on these are provided in note 3.2.

5 Changes in retained earnings comprise $1,980m loss (2017: $894m profit) for the year less dividends paid of $715m (2017: $837m).

(c) Contingent liabilities of AMP Limited entity

AMP 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.

Section 7: Other disclosures

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

7.1 Notes to Consolidated statement of cash flows

(a) Reconciliation of cash flow from operating activities

	2018 $m	2017 $m
Net profit after income tax	**51**	873
Depreciation of operating assets	**22**	17
Amortisation and impairment of intangibles	**239**	276
Investment gains and losses and movements in external unitholders liabilities	**8,258**	(1,495)
Dividend and distribution income reinvested	**(5,502)**	(4,686)
Share-based payments	**5**	7
(Increase) in receivables, intangibles and other assets	**(569)**	(152)
(Decrease) increase in net policy liabilities	**(6,769)**	3,769
(Decrease) increase in income tax balances	**(937)**	244
Increase (decrease) in other payables and provisions	**1,221**	(251)
Cash flows used in operating activities	**(3,981)**	(1,398)

(b) Reconciliation of cash

	2018 $m	2017 $m
Comprises:		
Cash and cash equivalents	**3,932**	3,602
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	**7,382**	7,222

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

(a) Operating lease 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).

(b) Buy-back arrangements

AMP 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 eighteen 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. AMP'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]	**132**	80
Total provisions	**807**	153

	Restructuring[1] $m	Customer remediation $m	Other[2] $m	Total $m
(b) Movements in provisions - consolidated				
Balance at the beginning of the year	**22**	**51**	**80**	**153**
Additional provisions made during the year	**19**	**615**	**124**	**758**
Provisions used during the year	**(22)**	**(10)**	**(72)**	**(104)**
Balance at the end of the year	**19**	**656**	**132**	**807**

1 Restructuring provisions are recognised in respect of programs that materially change the scope of the business or the manner in w hich the business is conducted.

2 Other provisions are in respect of various other operational provisions. $28m (2017:$25m) is expected to be settled more than 12 months from the reporting date.

Accounting policy – recognition and measurement

Provisions
Provisions are recognised when:
- the AMP 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 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.

Section 7: Other disclosures

7.3 Provisions and contingent liabilities (continued)

From time to time, the AMP 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 AMP group. Legal proceedings threatened against AMP may also, if filed, result in AMP 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 AMP group (or its insurers) in a dispute, accounting standards allow the AMP group not to disclose such information. It is the AMP group's policy that such information is not disclosed in this note.

Industry and regulatory compliance investigations
AMP is subject to review from time to time by regulators, both in Australia and offshore. In Australia, AMP's principal regulators are APRA, ASIC and AUSTRAC, though other government agencies may have jurisdiction depending on the circumstances. The reviews and investigations conducted by regulators may be industry wide or specific to AMP 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 AMP to enhance its control framework, governance and systems.

AMP 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 AMP, 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. AMP 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 AMP.

AMP 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 information, however the aggregate potential impact of these recommendations to AMP cannot be accurately assessed at the date of this financial information and a contingent liability exists.

Customer remediation
AMP 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
AMP 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. AMP 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.

Advice service fee (fees for no service)
AMP 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 AMP

Section 7: Other disclosures

7.3 Provisions and contingent liabilities (continued)

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.

AMP is developing a process for customer review and remediation within a reasonable timeframe, which on current estimates is three years finishing mid 2021. AMP 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 provisions for advice service fee customer compensation has and the future costs of executing the program have 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

AMP 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 eighteen month lead times, and are subject to audit prior to finalising the purchase price. Client registers are either acquired outright by AMP or AMP facilitates a sale to an existing business within the AMP advice network.

AMP 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.

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 AMP Limited, 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 forty 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 $'000	2017 $'000
AMP Limited and other corporate entities in the consolidated group		
Audit services		
Audit or review of financial statements	**6,107**	5,536
Other audit services[1]	**1,286**	1,395
Total audit service fees	**7,393**	6,931
Non-audit services		
Taxation services	**766**	743
Other services[2]	**1,082**	856
Total non-audit services fees	**1,848**	1,599
Total auditors' remuneration for AMP Limited and other corporate entities	**9,241**	8,530
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	**16,640**	16,115

1 Other audit services includes regulatory compliance and reviews of controls and procedures.
2 Other non-audit services for AMP Limited and other corporate entities relate to compliance related review.
3 Other non-audit services for managed investment schemes and superannuation funds are comprised primarily related to transaction related advice.

Section 7: Other disclosures

7.5 New accounting standards

a) New and amended accounting standards adopted by the AMP 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 AMP 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.

AMP 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 AMP 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.

AMP 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 group has chosen to continue to apply the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurements.*

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

Classification and measurement
Under AASB9, the 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 changes as a result of the adoption of AASB9:

- Financial instruments which were previously classified as loans and receivables are now classified as amortised cost.
- Equity instruments which were previously classified as available-for-sale are now classified as fair value through other comprehensive income (FVOCI). Consistent with the treatment of available-for-sale equity instruments, movements in the value of equity instruments classified as FVOCI are recognised in the fair value reserve within the Consolidated statement of changes in equity. However, unlike the treatment for available-for-sale instruments, gains and losses on equity securities measured at FVOCI are not subsequently reclassified to profit or loss.
- Debt securities held by AMP Bank were previously classified as held-to-maturity and measured at amortised cost. AMP has reclassified these financial instruments as FVOCI as the debt instruments meet the contractual cash flow characteristics and will be held both to collect cash flows and to manage liquidity needs. This has resulted in a $4m increase in value at 1 January 2018. This increase in value has been recorded as an adjustment to the Fair value reserve at 1 January 2018.

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

The adoption of AASB 9 has changed the 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 group's financial assets measured at amortised cost, debt securities measured at FVOCI, loan commitment and financial guarantee contracts not measured at fair value through Income Statement.

The 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 Income statement.

Section 7: Other disclosures

7.5 New accounting standards (continued)

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

	Retained earnings $m	Fair value reserve $m	Total equity $m
Balance at 31 December 2017	(164)	7	7,283
Expected credit losses - loans and advances	(12)	-	(12)
Expected credit losses - trade receivables	(5)	-	(5)
Gain on modification of syndicated loan	15	-	15
Reclassification of debt securities from amortised cost to FVOCI	-	4	4
Tax impact	1	(1)	-
Balance at 1 January 2018	**(165)**	**10**	**7,285**

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 AMP group in this financial information. 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 AMP 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.

AMP Group has materially completed the impact assessment of AASB 16 adoption as at 1 January 2019. The estimated impact for the 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.

AMP 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 AMP 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.

Section 7: Other disclosures

7.6 Events occurring after reporting date

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, 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 AMP.

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

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

Details of movements in controlled entities

for the year ended 31 December 2018

Changes in controlled entities comprise entities acquired and disposed through (a) activities in respect of investment entities controlled by the AMP life insurance entities' statutory funds and (b) purchase, sale, formation, and deregistration of minor operating controlled entities.

Changes in controlled entities during the full year ended 31 December 2018	**Date control**	
Name of the entity	**gained over entity**	**lost over entity**
AMP Capital Finance (US), LLC	16-Mar-18	
AMP Capital Investors (IDF CQP GP) S.àr.l.	28-Nov-18	
AMP Capital Investors (IDF IV GP) S.àr.l.	8-Oct-18	
AMP Capital Dynamic Markets Fund	2-Apr-18	
AMP CAPITAL GLOBAL LONG TERM ALPHA FUND	1-Jun-18	
AMP Capital Global Dynamic Markets Fund	2-Sep-18	
AMP Life Australian Equities Fund	1-Mar-18	
AMP Capital Australian Equity Income Focus Trust	2-Apr-18	
AMP Capital Balanced Growth Fund	2-Apr-18	
AMP Capital Australian Equity Income Fund	2-Apr-18	
AMP Global Listed Infrastructure Market Index Fund Hedged	2-Apr-18	
AMP Capital Absolute Return Growth Fund	1-Feb-18	
AMP Life Australian Small Companies Fund	2-Sep-18	
AMP Capital Australian Emerging Companies Fund	2-Sep-18	
AMP International Equity Index Fund Hedged	2-Sep-18	
AMP Capital Global Property Securities Fund	2-Apr-18	
ACRT Finance Pty Ltd	3-Dec-18	
AMP Capital Hedged Global Fixed Interest Fund	1-Oct-18	
AWOF II - Angel Place Pty Limited	22-Oct-18	
Click SMSF Pty Ltd	30-Jan-18	
Eluvia Pty. Ltd.	1-Aug-18	
More Superannuation Pty Ltd	30-Jan-18	
Responsible Investment Leaders Conservative fund	2-Sep-18	
Responsible Investment Leaders Growth fund	2-Sep-18	
SMA Tax & SMSF Services Pty Ltd	23-Mar-18	
SMSF Managers Pty Limited	23-Mar-18	
AMP Capital Investors (Singapore) Private Property Trust Management Ltd.		5-Apr-18
AMP Capital Global Listed Infrastructure Fund		1-Jul-18
AMP Capital Credit Strategies Fund		2-Apr-18
AFS Australian Equity Value Plus Fund 1		1-Jul-18
Core Plus Fund		2-Apr-18
Didus Pty. Ltd.		21-Jan-18
EFM Australian Share Fund 12		2-Jan-18
EFM Australian Share Fund 13		2-Jan-18
EFM Australian Share Fund 14		2-Jan-18
EFM Australian Share Fund 15		2-Apr-18
EFM Australian Share Fund 16		1-Jul-18
EFM Australian Share Fund 17		2-Jan-18
EFM Australian Share Fund 18		2-Apr-18

Details of movements in controlled entities (continued)

for the year ended 31 December 2018

Changes in controlled entities during the full year ended 31 December 2018	**Date control**	
Name of the entity	**gained over entity**	**lost over entity**
EFM Alternative Fund 1		2-Jan-18
EFM Infrastructure Fund 3		2-Jan-18
EFM Fixed Interest Fund 11		2-Apr-18
EFM Fixed Interest Fund 12		2-Jan-18
EFM Fixed Interest Fund 14		2-Jan-18
EFM International Share Fund 14		1-Jul-18
EFM International Share Fund 15		2-Jan-18
EFM International Share Fund 16		2-Jan-18
EFM International Share fund 17		2-Jan-18
EFM International Share Fund 18		2-Jan-18
Future Directions Private Equity Fund 2B		2-Apr-18
Future Directions Private Equity Fund 3B		2-Apr-18
Future Directions Private Equity Fund 1B		2-Apr-18
Global Credit Fund		2-Apr-18
Hindmarsh Square Wealth Advisers Pty Ltd		6-Jul-18
The Pinnacle Fund		2-Apr-18

Details of investments in associated entities and joint venture entities

for the year ended 31 December 2018

The majority of investment assets held by AMP are in the Australian life insurance statutory funds and measured at fair value through profit or loss. At any one time, the life insurance statutory funds hold investments in various vehicles, including associated entities, on behalf of policyholders. These investments are not part of the core wealth management business of AMP and did not have a material impact on the financial performance of the group. Investments in other associated entities which are accounted for using the equity method comprise a number of minor operating entities.

	Ownership interest	
	31-Dec	31-Dec
	2018	2017
Significant associates and joint ventures of the Group as at 31 December 2018	%	%
AIMS AMP Capital Industrial REIT	10	5
AMP Capital Australian Equity Income Fund	-	33
AMP Capital Balanced Growth Fund	-	49
AMP Capital Dynamic Markets Fund	27	26
AMP Capital Global Property Securities Fund	-	47
AMP Capital Multi-Asset Fund	-	22
AMP Capital NZ Shares Fund	38	31
Australian Corporate Bond Fund	22	24
China Life AMP Asset Management Company Ltd	15	15
China Life Pension Company	19.99	19.99
Global Infrastructure Fund Sponsor	5	8
Global Infrastructure Fund II	5	-
Gove Aluminium Finance Limited	30	30
K2 Australian Absolute Return Fund	50	26
Legg Mason Martin Currie Real Income Fund	20	23
PCCP LLC	25	25
PSK Financial Services Group Pty Ltd	42	-
Responsible Investment Leaders Balanced Fund	22	24
United Capital Financial Advisers, LLC	6.8	6.8
Wholesale Unit Trust MSCI Global Index Share Fund	37	40