ASX Announcement

23 March 2011

Manager
Company Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Manager
Market Information Services Section
New Zealand Stock Exchange
Level 2, NZX Centre, 11 Cable Street
Wellington New Zealand

Announcement No: 04/11

For release to AMP Group finance services Limited (ASX: AQNHA; NZX: AQN010)

Please find attached the AMP Notes Annual Report 2010

AMP Group Finance Services Limited
Level 24, 33 Alfred Street
Sydney NSW 2000 Australia
ABN 95 084 247 914

AMP Notes

Annual Report 2010

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Annual Report 2010

All amounts are in Australian dollars, unless otherwise specified.

AMP Group Holdings Limited

88 079 804 676

CHAIRMAN'S FOREWORD

Dear Securityholders

This Annual Report provides you with the 2010 full year statutory Directors' report and Financial report of AMP Group Holdings Limited, a parent company of AMP Group Finance Services Limited.

Group Finance Services Limited is the issuer of your AMP Notes while AMP Group Holdings Limited is the guarantor of the AMP Notes.

AMP Notes were issued on 9 April 2009 as interest-bearing, unsecured, subordinated debt securities. There are two types of AMP Notes – Australian dollar AMP Notes (A$ Notes) listed on the Australian Securities Exchange under the code AQNHA and New Zealand dollar AMP Notes (NZ$ Notes) listed on the New Zealand Debt Exchange under the code AQN010.

Interest payments

AMP Notes pay interest quarterly. A$ Notes (which had an issue price of A$100) pay interest based on the Australian 90 day Bank Bill Swap Rate (BBSW) plus a margin of 4.75 per cent. NZ$ Notes (which had an issue price of NZ$1) pay a fixed rate of interest of 9.8025 per cent.

For the next interest payment on 15 May 2011, A$ Notes holders will receive an interest rate of 9.66 per cent per annum which is A$2.3555 per A$ Note while NZ$ Notes holders will receive 9.8025 per cent per annum which is NZ$0.0245 per NZ$ Note.

Paul Leaming
Chairman
AMP Group Finance Services Limited

DIRECTORS' REPORT

for the year ended 31 December 2010

Your directors present their report on the consolidated entity (AMPGH group) consisting of AMP Group Holdings Limited and the entities it controlled at the end of or during the year ended 31 December 2010.

Directors' details

The directors of AMP Group Holdings Limited during the year ended 31 December 2010 and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise:

Paul Leaming (Chairman)
Simon Hoole (appointed 5 March 2010)
Colin Storrie (appointed 18 February 2011)
Brian Salter (appointed 3 December 2010, resigned 21 February 2011)
Craig Dunn (resigned 8 March 2010)
Bryan Dean (resigned 7 December 2010)

Principal activities

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

AMPGH group is a leading wealth management company operating in Australia and New Zealand with selective investment management activities in Asia. Its ambition is to become the region's pre-eminent wealth manager and investment house.

AMP Financial Services provides a range of financial products and services to customers in Australia and New Zealand. These products and services include financial planning advice, superannuation, retirement savings, investments, risk insurance and banking products. The products and services are primarily distributed through self-employed financial planners and advisers aligned with AMP Financial Services.

AMP Capital Investors manages investments across all the major asset classes including equities, fixed interest, infrastructure, property, diversified funds and multi-manager funds. AMP Capital Investors also provides commercial, industrial and retail property management services. It provides its services through in-house investment professionals and a network of investment partners. AMP Capital Investors has offices in Australia, New Zealand, Beijing, London, Mumbai, New York, Singapore and Tokyo.

Review of operations and results

AMPGH group's statutory profit attributable to shareholders of AMP Group Holdings Limited for the year ended 31 December 2010 was $689 million, compared to $640 million for the previous corresponding period.

AMPGH group experienced overall investment gains attributable to shareholders, policyholders, external unitholders and non-controlling interests for the year ended 31 December 2010. The vast majority of investment returns are attributable to wealth management products where the shareholders are not directly exposed to changes in asset values.

Capital management

Equity and reserves of the AMPGH group increased to $1,911 million at 31 December 2010 from $1,631 million at 31 December 2009. This was a result of profits to 31 December 2010 partially offset by dividends paid up to 31 December 2010.

Significant changes to the state of affairs

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

Events occurring after the reporting date

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of its operations or its state of affairs, which is not already reflected in this report, other than the following:

- on 17 January 2011, AXA Asia Pacific Holdings Limited (AXA APH) released an explanatory memorandum setting out information for AXA APH shareholders about a proposed merger of AXA APH's

Australian and New Zealand businesses with AMP. The proposed transaction is a joint proposal with AXA SA under which AXA SA would acquire 100 per cent of AXA APH's Asian business.

AXA APH's independent directors have unanimously recommended the proposal to minority shareholders in the absence of a superior proposal. AXA APH shareholders will have the opportunity to vote on the proposal on 2 March 2011. Assuming shareholders vote in favour of the proposal, and subject to court approval, it is expected that the implementation date for the merger will be 30 March 2011. In addition to receiving shareholder and court approvals, the merger also remains subject to various regulatory approvals, including from the Federal Treasurer.

Likely developments

In the opinion of the directors, disclosure of further information about likely developments in AMPGH group's businesses is commercially sensitive and would likely be detrimental and result in unreasonable prejudice to the company.

The environment

AMPGH group manages its environmental impact through the broader framework of AMP's environmental policy guiding improvements by reducing our use of energy, water, paper and other materials. It also outlines environmental considerations in our purchasing decisions and product design. The Environment Policy is available on AMP's website: www.amp.com.au

AMP has an environment leadership team that drives improvements in AMP's operational environmental performance and is chaired by the managing director of AMP Capital Investors. The team has established key targets for energy use and waste recycling, and these have been endorsed by senior management. Over the past two years, initiatives have been implemented to increase the number of buildings with recycling programs, automatic PC shutdown, server virtualisation, low energy lighting, additional timers and sensors. Employee awareness and participation activities have also been introduced to meet the key targets.

As an investor, AMP believes engagement with companies on environmental issues is an effective way to influence management practices for the benefit of customers and the environment. During 2010, AMP Capital Investors continued to be a signatory to the Carbon Disclosure Project (www.cdproject.net) and an active participant in the Investor Group on Climate Change (www.igcc.org.au). AMP Capital Investors is also a signatory to the United Nations Principles of Responsible Investment.

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.

AMP reports energy use and greenhouse gas emissions through compliance with the *Energy Efficiency Opportunities Act 2006* (EEO Act) and the *National Greenhouse and Energy Reporting Act 2007* (NGER Act).

Both these Acts require AMP to report on energy consumption levels. The EEO Act aims to encourage more efficient use of energy by large energy-using businesses, while the NGER Act provides for the reporting and dissemination of information related to greenhouse gas emissions, greenhouse gas projects, energy production and energy consumption.

Reporting to the Australian Government Department of Resources, Energy and Tourism and the Australian Government Department of Climate Change (the responsible government bodies) is performed at an AMP Limited level, with AMP Capital Investors making up a core component of the reporting through its property and infrastructure divisions.

AMP's 2010 report on *Energy Efficient Opportunities* is available at www.amp.com.au/socialresponsibility.

Indemnification and insurance of directors and officers

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

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

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

The company has entered into a deed of indemnity and access with each director of the company. Each deed of indemnity and access provides that:

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

Rounding

In accordance with the Australian Securities and Investments Commission Class Order 98/0100, amounts in this Directors' Report and the accompanying Financial Report have been rounded off to the nearest million Australian dollars, unless stated otherwise.

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

The directors have obtained an independence declaration from the company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' report for the year ended 31 December 2010.

Signed in accordance with a resolution of the directors.

Paul Leaming
Director

Simon Hoole
Director

Sydney, 28 February 2011

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

In relation to our audit of the financial report of AMP Group Holdings Limited for the financial year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Andrew Price
Partner
28 February 2011

AMP GROUP HOLDINGS LIMITED
ABN 88 079 804 676
FINANCIAL REPORT
31 DECEMBER 2010

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

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

Income statement
for the year ended 31 December 2010

	Note	Consolidated 2010 $m	2009 $m
Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests[1]			
Life insurance premium and related revenue	3	1,100	1,049
Fee revenue	3	1,452	1,346
Other revenue	3	294	280
Investment gains and (losses)	4	4,208	7,769
Life insurance claims and related expenses	5	(1,289)	(1,251)
Operating expenses	5	(2,235)	(2,091)
Finance costs	5	(408)	(235)
Share of profit or (loss) of associates accounted for using the equity method		6	4
Movement in external unitholders' liabilities		(284)	(343)
Change in policyholder liabilities			
- life insurance contracts		202	641
- investment contracts		(2,259)	(5,951)
Income tax (expense) credit	6	(118)	(594)
Profit		**669**	**624**
Profit of shareholders of AMP Group Holdings Limited		**689**	**640**
Profit (loss) attributable to non-controlling interests		(20)	(16)
Profit		**669**	**624**

Footnote:

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

Statement of comprehensive income

for the year ended 31 December 2010

	Consolidated 2010 $m	Consolidated 2009 $m
Profit	669	624
Other comprehensive income recognised in retained earnings		
Defined benefit plans [1]		
- actuarial gains and (losses)	(15)	61
- income tax (expense)/credit	4	(18)
	(11)	43
Other comprehensive income recognised in reserves		
Cash flow hedges		
- gains and (losses) in fair value of cash flow hedges	(3)	9
- income tax (expense)/credit	1	(3)
	(2)	6
Owner-occupied property		
- gains (losses) in valuation of owner-occupied property	(1)	(29)
- income tax (expense)/credit	-	2
	(1)	(27)
Exchange difference on translation of foreign operations		
- exchange gains (losses)	(21)	(65)
- transferred to profit for the period	-	19
	(21)	(46)
Revaluation of hedge of net investments		
- gains and (losses) in fair value of hedge of net investments	3	30
- income tax (expense)/credit	(1)	(9)
- transferred to profit for the period - gross	(4)	3
- transferred to profit for the period - income tax (expense)/credit	1	(1)
	(1)	23
Total comprehensive income	**633**	**623**
Total comprehensive (profit) / loss attributable to non-controlling interests	20	16
Total comprehensive income attributable to the shareholders of AMP Group Holdings Limited	**653**	**639**

Footnote:

(1) Under accounting standards, actuarial gains and losses on AMP's employer sponsored defined benefit plans are recognised directly in retained earnings. Whilst the defined benefit plans are in a liability position as measured under accounting standards, under the accrued benefits calculation method used to determine employer contributions, the Australian defined benefit plan was in a satisfactory position at reporting date while the New Zealand defined benefit plan needed to make additional contributions of $2m per year as recommended by the plan actuaries.

Statement of financial position

as at 31 December 2010

	Note	Consolidated 2010 $m	2009 $m
Assets			
Cash and cash equivalents		4,931	3,934
Receivables	7	886	1,107
Current tax assets		8	-
Inventories and other assets	8	312	183
Investments in financial assets measured at fair value through profit or loss	9	64,933	65,723
Investments in financial assets measured at amortised cost	9	327	299
Investment property	10	7,122	7,832
Investments in associates accounted for using the equity method	27	89	116
Property, plant and equipment	11	452	475
Deferred tax assets	6	506	501
Intangibles	12	919	940
Total assets of shareholders of AMP Group Holdings Limited, policyholders, external unitholders and non-controlling interests		**80,485**	**81,110**
Liabilities			
Payables	13	1,942	1,767
Current tax liabilities		58	40
Provisions	14	248	274
Derivative financial liabilities		591	987
Borrowings	15	2,422	3,583
Subordinated debt	16	345	353
Deferred tax liabilities	6	608	616
External unitholders' liabilities		5,892	6,121
Life insurance contract liabilities	19	17,762	18,380
Investment contract liabilities	20	48,579	47,239
Defined benefit plan liability	24	67	56
Total liabilities of shareholders of AMP Group Holdings Limited, policyholders, external unitholders and non-controlling interests		**78,514**	**79,416**
Net assets of shareholders of AMP Group Holdings Limited and non-controlling interests		**1,971**	**1,694**
Equity			
Contributed equity	18	3,226	3,226
Reserves		(2,563)	(2,539)
Retained earnings		1,248	944
Total equity attributable to shareholders of AMP Group Holdings Limited		**1,911**	**1,631**
Non-controlling interests		60	63
Total equity of shareholders of AMP Group Holdings Limited and non-controlling interests		**1,971**	**1,694**

Statement of changes in equity

for the year ended 31 December 2010

Consolidated

	Equity attributable to shareholders of AMP Group Holdings Limited										
	Contributed equity $m	Share based payment reserve(1) $m	Cash flow hedge reserve(2) $m	Owner occupied property revaluation reserve(3) $m	Foreign currency translation reserve(4) $m	Hedge of net investment reserve(5) $m	Demerger loss reserve(6) $m	Retained earnings $m	Total shareholder equity $m	Non-controlling interest $m	Total equity $m
2010											
Balance at the beginning of the period	3,226	-	6	67	(48)	2	(2,566)	944	1,631	63	1,694
Profit	-	-	-	-	-	-	-	689	689	(20)	669
Other comprehensive income	-	-	(2)	(1)	(21)	(1)	-	(11)	(36)	-	(36)
Total comprehensive income	-	-	(2)	(1)	(21)	(1)	-	678	653	(20)	633
Share based payment expense	-	19	-	-	-	-	-	-	19	-	19
Share purchases	-	(18)	-	-	-	-	-	-	(18)	-	(18)
Dividends paid	-	-	-	-	-	-	-	(374)	(374)	-	(374)
Non-controlling interest on sales and acquisitions	-	-	-	-	-	-	-	-	-	17	17
Balance at the end of the period	**3,226**	**1**	**4**	**66**	**(69)**	**1**	**(2,566)**	**1,248**	**1,911**	**60**	**1,971**
2009											
Balance at the beginning of the period	3,226	(12)	-	94	(2)	(21)	(2,566)	461	1,180	80	1,260
Profit	-	-	-	-	-	-	-	640	640	(16)	624
Other comprehensive income	-	-	6	(27)	(46)	23	-	43	(1)	-	(1)
Total comprehensive income	-	-	6	(27)	(46)	23	-	683	639	(16)	623
Share based payment expense	-	14	-	-	-	-	-	-	14	-	14
Share purchases	-	(2)	-	-	-	-	-	-	(2)	-	(2)
Dividends paid	-	-	-	-	-	-	-	(200)	(200)	-	(200)
Non-controlling interest on sales and acquisitions	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the period	**3,226**	**-**	**6**	**67**	**(48)**	**2**	**(2,566)**	**944**	**1,631**	**63**	**1,694**

Statement of changes in equity (continued)

for the year ended 31 December 2010

Footnote:

(1) The Share based payment reserve represents the cumulative expense recognised in relation to equity settled share based payments less the cost of shares purchased and transferred to share based payments recipients upon vesting.

(2) The Cash flow hedge reserve represents the cumulative impact of changes in the fair value of derivatives designated as cash flow hedges which are effective for hedge accounting. Hedge gains and losses are transferred to the Income statement when they are deemed ineffective or upon realisation of the cash flow.

(3) The Owner-occupied property revaluation reserve represents cumulative valuation gains and losses on owner-occupied property required to be recognised in equity.

(4) Exchange differences arising on translation of foreign controlled entities within the AMPGH group are recognised in Foreign currency translation reserve. Exchanges gains and losses are transferred to the Income statement upon realisation of the investment in the foreign controlled entity.

(5) The Hedge of net investment reserve reflects gains and losses on effective hedges of net investments in foreign operations. Hedge gains and losses are transferred to the Income statement when they are deemed ineffective or upon realisation of the investment in the foreign controlled entity.

(6) The Demerger loss reserve represents the transfer from Shareholders' retained earnings of the total loss on demerger.

Statement of cash flows

for the year ended 31 December 2010

		Consolidated	
		2010	2009
	Note	$m	$m
Cash flows from operating activities	23		
Cash receipts in the course of operations		12,515	11,756
Interest and other items of a similar nature received		1,417	1,299
Dividends and distributions received		2,200	1,158
Cash payments in the course of operations		(13,626)	(11,411)
Finance costs		(281)	(171)
Income tax refunded		153	15
Cash flows from (used in) operating activities		**2,378**	**2,646**
Cash flows from investing activities			
Net proceeds from sale of / (payments to acquire):			
- investment property		74	306
- investments in financial assets		(706)	(2,690)
Loan to related parties - other		-	(299)
Proceeds from disposal of subsidiaries and other businesses[(1)]		297	46
Payments to acquire subsidaries and other businesses[(2)]		(19)	(14)
Cash flows from (used in) investing activities		**(354)**	**(2,651)**
Cash flows from financing activities			
Proceeds from borrowings		1,264	982
Proceeds from A$ and NZ$ AMP Notes		-	287
Net movement in deposits from customers		(11)	(83)
Repayment of borrowings		(1,931)	(1,324)
Repayment of subordinated Guaranteed Set-up Bonds		-	(223)
Loans from parent entity		-	172
Dividends paid		(374)	(200)
Cash flows from (used in) financing activities		**(1,052)**	**(389)**
Net increase (decrease) in cash and cash equivalents		**972**	**(394)**
Cash and cash equivalents at the beginning of the period		6,639	7,038
Effect of exchange rate changes on cash and cash equivalents		(14)	(5)
Cash and cash equivalents at the end of the period	23	**7,597**	**6,639**

Footnote:

(1) Proceeds are in respect of disposals of trusts and operating businesses controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group, net of cash disposed.

(2) Payments are in respect of the acquisition of a financial planning business that did not have a material impact on the composition of the AMPGH group, net of cash acquired.

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated economic entity (the AMPGH group) comprises AMP Group Holdings Limited (the parent entity), a company limited by shares, and incorporated and domiciled in Australia, and all entities that it controlled during the period and at the reporting date. AMPGH group comprises the majority of the controlled entities in the AMP Limited consolidated economic entity (the AMP group).

(a) Basis of preparation

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

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

The AMPGH group is predominantly a wealth-management business conducting operations through AMP Life Limited (AMP Life), a registered life insurance company, and other entities. As described in Note 1(c) below, the assets and liabilities arising from investment contracts and life insurance contracts are measured predominantly on the basis of fair value. Subject to the exceptions noted in the accounting policies below, other assets and liabilities in this Financial Report are also measured on a fair value basis.

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of the AMPGH group are investment assets held to back investment contract and life insurance contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within 12 months of the reporting date are not always known, estimates have been provided in Note 19(f) (in respect of the life statutory funds). Details of other amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

Significant judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Assumptions made at each reporting date (for example, the calculation of life insurance contracts liabilities, fair value measurements, provisions and impairment testing of intangibles) are based on best estimates at that date. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Changes in accounting policy

Since 1 January 2010, the AMPGH group has adopted a number of Australian Accounting Standards and Interpretations which are mandatory for annual periods beginning on or after 1 January 2010. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the AMPGH group.

The main standards adopted since 1 January 2010 were the revised AASB 3 '*Business Combinations',* amended AASB 127 '*Consolidated and Separate Financial Statements'* and AASB 2008-3 'A*mendments to Australian Accounting Standards arising from AASB 3 and AASB 127'.* These revised standards introduce significant changes to accounting for business combinations and consolidation. The major impacts include the requirement for acquisition costs to be expensed at the time they are incurred; and, upon gaining control of an entity, revaluation of any pre-existing interests in that entity to fair value. The changes only impact business combination transactions which occurred on or after 1 January 2010.

Australian Accounting Standards issued but not yet effective/Early adoption of Australian Accounting Standards

A number of new accounting standards have been issued but are not yet effective during 2010. The AMPGH group has not elected to early adopt any of these new standards or amendments in this Financial Report. These new standards, when applied in future periods, are not expected to have a material impact on the financial position or performance of the AMPGH group other than the following:

- AASB 9 "*Financial instruments: Classification and measurement*": This standard makes significant changes to the way that financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity. AASB 9 is mandatory for adoption by the AMPGH group in the year ending 31 December 2013. The financial impact to the AMPGH group of adopting this standard has not yet been quantified.

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Change in presentation of the Statement of financial position
The Statement of financial position has been enhanced so as to give greater prominence to the categories of financial assets as defined by AASB139 *'Financial instruments: Recognition and measurement'* with consequential changes to the Statement of cash flows and Note 9 Investments in financial assets. The Statement of financial position now presents investments in financial assets by measurement category whereas previously it presented investment assets by asset type. A split of investments in financial assets by measurement category was previously provided in the notes to the financial statements. Comparatives are presented on a basis consistent with the current period presentation.

(b) Principles of consolidation
The financial statements consolidate the financial information of controlled entities. Control is determined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial information for controlled entities is prepared for the same reporting date as the parent entity, using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to bring these into line.

AMP Life conducts wealth-management business through separate life statutory funds. Income, expenses, assets and liabilities attributable to policyholders within the life statutory funds are consolidated into the AMPGH group financial statements, along with those attributable to the shareholders of the parent entity.

The life statutory funds include controlling interests in unit trusts and companies. The total amounts of each underlying asset, liability, income and expense of the controlled entities are recognised in the consolidated financial statements.

When a controlled unit trust is consolidated, the share of the unitholder liability attributable to the AMPGH group is eliminated but amounts due to external unitholders remain as liabilities in the consolidated Statement of financial position.

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

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

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

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

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

(c) Accounting for wealth-management and life insurance business
The accounting treatment of certain transactions in this Financial Report varies depending on the nature of the contract underlying the transactions. The two major contract classifications relevant to the wealth-management and insurance business of the AMPGH group are investment contracts and life insurance contracts.

The other transactions of the AMPGH group, not covered by the areas listed above, are predominantly investment management services.

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

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

Under Australian Accounting Standards such contracts are defined as *life investment contracts* and described as *investment contracts* throughout this Financial Report.

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

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

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

Life insurance contract liabilities are measured as described in Note 1(t) and investment contract liabilities are measured at fair value as described in Note 1(s). Assets backing such liabilities are measured at fair value, to the extent permitted under Australian Accounting Standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Income statement, to the extent permitted under Australian Accounting Standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described later in Note 1.

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

Assets not backing investment and life insurance contract liabilities
To ensure consistency across the AMPGH group, and except where specifically stated otherwise, all financial assets and all non-financial assets other than those backing investment or life insurance contract liabilities, are also recognised at fair value through profit or loss to the extent permitted under Australian Accounting Standards. Similarly, adjustments to the value of such assets are recognised in the Income statement when the corresponding Australian Accounting Standards allow such treatment.

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

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

(f) Inventories
Assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services are classified as inventories.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

(g) Investments in financial assets
Investments in financial assets measured at fair value through profit or loss
Investments in financial assets, are designated on initial recognition as financial assets measured at fair value through profit or loss. Investments in associates held to back life insurance or life investment contracts are exempt from the requirement to apply equity accounting and have been designated on initial recognition as financial assets measured at fair value through profit or loss.

Investments in financial assets measured at fair value through profit or loss are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset, exclusive off any transaction costs.

Investments in financial assets measured at fair value through profit or loss are subsequently measured at fair value with any realised and unrealised gains or losses arising from changes in fair value being recognised in the Income statement in the period in which they arise. Subsequent to initial recognition, fair value of investments measured at fair value through profit or loss is determined as follows:

- The fair value of equity securities in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, a fair value is established using valuation techniques including the use of recent arms length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

- The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
- The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment scheme at the reporting date.
- The fair value of derivative financial assets is determined in accordance with the policy set out in Note 1(q).

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

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

Associated entities are defined as those entities over which the AMPGH group has significant influence but there is no capacity to control. Investments in associates, other than those backing investment contract and life insurance contract liabilities are initially measured at cost plus any excess of the fair value of AMPGH group's share of identifiable assets and liabilities above cost at acquisition date subsequently adjusted for AMPGH group's share of post acquisition profit or loss and movements in reserves net of any impairment. AMPGH group's share of profit or loss of associates is included in the consolidated Income statement.

(i) Investment property

Investment property is held to earn revenue from rentals and/or for the purposes of capital appreciation. Investment property includes all directly held freehold and leasehold properties but excludes owner-occupied properties. See Note 1(j). There are no property interests held under operating leases accounted for as investment property.

Investment property is initially recognised at cost, including transaction costs. Expenditure capitalised to investment property also comprises capital and refurbishment additions, and during development includes finance costs, related professional fees incurred and other directly attributable costs. Subsequent to initial recognition, investment property is measured at fair value at each reporting date. Fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable wiling seller in an arm's length transaction.

Changes in value of investment property are taken directly to the Income statement and may comprise changes in the fair value of investment property in relation to the revaluation of investment property; and fair value adjustments in relation to:

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

(j) Property, plant and equipment

Owner-occupied property

Where the whole or a significant portion of a property owned by the AMPGH group is held for use by the AMPGH group in the production or supply of goods or services, or for administrative purposes, that property is classified for accounting purposes as owner-occupied property.

Owner-occupied property is initially recognised at cost, including transaction costs. It is subsequently measured at the revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Fair value is determined on the same basis as investment property in Note 10.

When a revaluation increases the carrying value of a property, the increase is recognised directly in equity in Other comprehensive income through the owner-occupied property revaluation reserve. However, an increase is recognised in the Income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income statement. When the carrying value of an asset is decreased as a result of a revaluation, the decrease is recognised in the Income statement. However, any decrease is recognised in the owner-occupied property revaluation reserve to the extent that it reverses a balance existing in the reserve in respect of that asset.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the Income statement. The balance of the owner-occupied property revaluation reserve, in respect of a property disposed of, is transferred to retained earnings.

Each part of an owner-occupied property, except land, that is significant in relation to the total property is depreciated on a systematic basis over the useful life of the asset, being a period not exceeding 40 years.

Plant and equipment

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

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

Leasehold improvements

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

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets

Goodwill

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

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

Management rights

Rights to receive fees for asset management services acquired either directly or as part of a business combination are recognised as an intangible asset when they can be separately identified and reliably measured and it is probable that the expected benefits will flow to the AMPGH group. Management rights are initially measured at cost. Management rights have been assessed to have an indefinite useful life where the contractual rights to manage the assets have no fixed term. These management rights are not amortised but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Where management rights are subject to contractual terms, the useful life is determined to be the contractual term and the asset is amortised over that period. Such assets are reviewed at each reporting period for indicators of impairment.

Capitalised costs

Costs are capitalised and carried forward only where the costs relate to the creation of an asset with expected future economic benefits which are capable of reliable measurement. Otherwise, all costs are recognised as expenses in the period in which they are incurred. Capitalised costs are amortised 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). The useful lives of such assets generally do not exceed 5 years, however a useful life of up to 7 years has been applied to some capitalised costs relating to IT systems development projects where AMPGH group expects benefits to flow over a longer period.

Other intangible assets

Other intangible assets principally comprise acquired customer relationships. These intangible assets are a result of business combinations and are recognised when they can be separately identified, reliably measured and it is probable that the expected benefits will flow to the AMPGH group. These intangible assets are initially measured at cost and are subsequently amortised over their estimated useful life of the specific asset.

(l) Impairment of assets

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

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

An impairment loss is recognised in the Income statement, being the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (including realisation costs) and its value in use.

(m) Taxes

Tax consolidation

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Income tax for investment contracts and life insurance contracts business
The income tax expense recognised in the Income statement arising in AMP Life reflects tax imposed on shareholders as well as policyholders.

Investment contracts and life insurance contracts liabilities are established net in Australia, and gross in New Zealand, of the policyholders' share of any current tax payable and deferred tax balances of the AMPGH 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 recognized as a decrease in investment contract liabilities and not included in income tax expense.

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 attributable to:

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

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

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

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

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

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

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

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

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

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

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

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

(n) Payables

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

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(o) Provisions

Provisions are recognised when:

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

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

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

Employee entitlements

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

Restructuring

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

(p) Borrowings and subordinated debt

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

Borrowings and subordinated debt, other than those held by controlled entities of the life statutory funds, are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income statement over the period of the contract using the effective interest rate method. It is AMPGH group's policy to hedge currency and interest rate risk arising on issued bonds and subordinated debt. When fair value hedge accounting is applied to borrowings and subordinated debt, the carrying values of borrowings and subordinated debt are adjusted for changes in fair value for the period that the fair value hedge relationship remains effective. See Note 1(q).

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

(q) Derivative financial assets, derivative financial liabilities and hedging

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

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

The method of recognising the movement in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The AMPGH group designates a hedge as either:

- a hedge of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge),
- a hedge of highly probable forecast transactions (cash flow hedge), or
- a hedge of a net investment in a foreign operation (net investment hedge).

AMPGH group documents the relationship between hedging instruments and hedged items at inception of the transaction, as well as the AMPGH group's risk management and strategy for undertaking various hedge transactions. The AMPGH group also documents its assessment of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. This assessment is carried out both at hedge inception and on an ongoing basis.

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Accounting for hedges

(i) Fair value hedges:

- Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the 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 adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the Income statement over the period to maturity.

(ii) Cash flow hedges:

- The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the Income statement in the period when the hedged item affects profit or loss.
- The gain or loss relating to any ineffective portion of a hedge is recognised immediately in the Income statement.
- 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 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 Income statement.

(iii) Net investment hedges:

- Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains and losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity (including related tax impacts) while any gains or losses relating to the ineffective portion of the hedge are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the Income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative financial instrument that does not qualify for hedge accounting are recognised in the Income statement in the period in which they arise.

Fair value estimation

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

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

(r) Recognition and de-recognition of financial assets and liabilities

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

(s) Investment contract liabilities

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

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

(t) Life insurance contract liabilities

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

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

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

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

The accumulation method may be adjusted to the extent that acquisition expenses are to be recovered from future margins between fees and expenses.

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (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* (Life Act).

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

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

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

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

(i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings, being 80:20.

(ii) Other MoS profits arising from discretionary participating business (excluding the additional tax attributable to shareholders in respect of Australian superannuation business) are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
- The profit arising from New Zealand corporate superannuation business is apportioned such that shareholders are allocated 15% of the profit allocated to policyholders.
- The profit arising in respect of Preservation Superannuation Account business is allocated 92.5% to policyholders and 7.5% to shareholders.

(iii) Additional tax on taxable income to shareholders in respect of Australian superannuation business is allocated to shareholders only.

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

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

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

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

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

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

(v) Foreign currency transactions
Functional and presentation currency
The consolidated Financial Report is presented in Australian dollars (the presentation currency). Items included in the financial statements for each of the AMPGH group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent entity is Australian dollars.

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

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

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Translation of controlled entities
Where the functional currency of a controlled entity is not the presentational currency, the transactions and balances of that entity are translated as follows:

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

When a foreign operation is sold, a proportionate share of such exchange differences is recognised in the Income statement as part of the gain or loss on sale.

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

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

Investment contracts
There is no premium revenue in respect of investment contracts. Amounts received from policyholders in respect of investment contracts comprise:
- origination fees, advice fees and ongoing investment management fees. See Note 1(x).
- amounts credited directly to investment contract liabilities. See Note 1(s).

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

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

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

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

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

(y) Investment gains or losses
Dividend and interest income is recognised in the Income statement on an accruals basis when the AMPGH group obtains control of the right to receive the revenue.

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(aa) Operating expenses

All operating expenses, other than those allocated to life insurance contracts, are expensed as incurred. See Note 1(t).
Expenses of controlled entities of the life statutory funds represent the business costs of those entities and are consolidated into the results of the AMPGH group.

The majority of investment contracts issued result in payments to external service and advice providers. Where the amount paid equates to a fee charged to policyholders for the provision of advice, the amount is expensed either at inception or over the period of the contract consistent with the basis for recognising the fee revenue on the respective contracts. See Note 1(x).

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

(bb) Finance costs

Finance costs include:

(i) Borrowing costs:
- interest on bank overdrafts, borrowings and subordinated debt
- amortisation of discounts or premiums related to borrowings
- finance charges in relation to finance leases

(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 asset or liabilities that are designated and qualify as fair value hedges, foreign exchange gains and losses and other financing related amounts. The accounting policy for derivatives is set out in Note 1(q).

Borrowing costs are recognised as expenses when incurred.

(cc) Share-based payments

The AMPGH group issues performance rights, restricted shares and other equity instruments to employees as a form of equity-settled share-based compensation. Equity-settled share-based compensation to employees is considered to be an expense in respect of the services received and is recognised in the Income statement over the vesting period of the instrument with a corresponding amount in the share-based payment reserve within equity.

The expense is based on the fair value of each grant, measured at the date of the grant. For performance rights and similar instruments the fair value is determined by an external valuer. The fair value calculation takes into consideration a number of factors, including the likelihood of achieving market-based vesting conditions such as total shareholder return. The fair value determined at grant date is not altered over the vesting period. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. At each reporting date, the AMPGH group reviews its estimates of the number of instruments that are expected to vest. Any changes to the original estimates are recognised in the Income statement and the share-based payment reserve, over the remaining vesting period.

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

Expenses for awards that do not ultimately vest are reversed in the period in which the instrument lapses, except for awards where vesting is conditional upon a market condition, in which case no reversal is recognised.

When instruments vest, shares are purchased on-market and transferred to the employee. The cost of the purchase is recognised in the share-based payments reserve.

(dd) Superannuation funds

The AMPGH group operates two superannuation funds that provide benefits for employees and their dependants on resignation, retirement, disability or death of the employee. The funds have both defined contribution and defined benefit sections, refer to Note 24 for further information on the funds.

The contributions paid and payable by AMPGH group to defined contributions funds are recognised in the Income statement as an operating expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

For the defined-benefit sections of superannuation funds operated by the AMPGH group, the AMPGH group recognises the net deficit or surplus position of each fund in the 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 a government bond yield as the discount rate. The defined-benefit obligation is calculated annually, with half-yearly reviews, by independent actuaries.

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

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

Notes to the financial statements

for the year ended 31 December 2010

2. INFORMATION RELATING TO THE PARENT ENTITY

	Parent	
	2010	**2009**
	$'000	**$'000**
Assets and liabilities		
Current assets	642	653
Total assets	4,237	4,434
Current liabilities	573	754
Total liabilities	573	771
Shareholders' equity		
Issued capital	3,226	3,226
Retained earnings	438	437
Total shareholders' equity	**3,664**	**3,663**
Profit	375	201
Total comprehensive income	375	201

The parent entity provides an unconditional and irrevocable guarantee over AMP Bank Limited and from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business including guarantees issued in relationship to performance obligations of controlled entities in the AMPGH group.

At reporting date the likelihood of any outflow in settlement of these obligations is remote.

Notes to the financial statements

for the year ended 31 December 2010

3. INCOME

	Consolidated	
	2010	2009
	$m	$m
(a) Life insurance premium and related revenue		
Life insurance contract premium revenue	1,051	1,017
Reinsurance recoveries	49	32
Total life insurance premium and related revenue	**1,100**	**1,049**
(b) Fee revenue		
Investment management and origination fees	1,245	1,163
Financial advisory fees		
- related parties	10	11
- other entities	165	151
Service fees		
- related parties	26	20
- other entities	6	1
Total fee revenue	**1,452**	**1,346**
(c) Other revenue		
Defined benefit plan income	1	-
Other revenue(1)	293	280
Total other revenue	**294**	**280**

Footnote:

(1) Other revenue includes trading revenue of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group.

Notes to the financial statements

for the year ended 31 December 2010

4. INVESTMENT GAINS AND (LOSSES)

	Consolidated	
	2010	2009
	$m	$m
Investment gains and (losses)		
Interest [1]		
- related parties - other	101	84
- other entities	1,370	1,240
Dividends and distributions		
- associated entities	47	62
- other entities	2,361	1,313
Rental income	744	764
Net realised and unrealised gains and (losses) [2]	(415)	4,256
Other investment income	-	50
Total investment gains and (losses)	**4,208**	**7,769**

Footnote:

(1) Interest includes interest income from financial assets designated at fair value through profit or loss upon initial recognition

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

Notes to the financial statements
for the year ended 31 December 2010

5. EXPENSES

	Consolidated	
	2010	2009
	$m	$m
(a) Life insurance claims and related expenses		
Life insurance contract claims and related expenses	(1,241)	(1,203)
Outwards reinsurance expense	(48)	(48)
Total life insurance claims and related expenses	**(1,289)**	**(1,251)**
(b) Operating expenses		
Commission and advisory fee-for-service expense	(524)	(491)
Investment management expenses	(201)	(173)
Fee and commission expenses (1)	**(725)**	**(664)**
Wages and salaries	(555)	(563)
Contributions to defined contribution plans	(51)	(51)
Share based payments expense	(19)	(14)
Other staff costs	(41)	(45)
Staff and related expenses	**(666)**	**(673)**
Occupancy and other property related expenses	(76)	(88)
Direct property expenses(2)	(186)	(191)
Information technology and communication	(120)	(95)
Professional fees	(79)	(74)
Advertising and marketing	(36)	(34)
Travel and entertainment	(23)	(23)
Impairment of intangibles	(19)	(3)
Amortisation of intangibles	(57)	(38)
Depreciation of property, plant and equipment	(41)	(57)
Other expenses (3)	(207)	(151)
Other operating expenses	**(844)**	**(754)**
Total operating expenses	**(2,235)**	**(2,091)**
(c) Finance costs		
Interest expense on borrowings and subordinated debt	(344)	(258)
Other finance (costs) / recoveries	(64)	23
Total finance costs	**(408)**	**(235)**

Footnote:

(1) Fee and commission expense include fee expenses from trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

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

(3) Other expenses include trading expenses of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group.

Notes to the financial statements

for the year ended 31 December 2010

6. INCOME TAX

	Consolidated 2010 $m	Consolidated 2009 $m
(a) Analysis of income tax (expense) credit		
Current tax	(195)	(24)
Increase (decrease) in deferred tax assets	(13)	(301)
(Increase) decrease in deferred tax liabilities	34	(282)
Over provided in previous years including amounts attributable to policyholders	50	13
Effect of change in overseas tax rate	6	-
Income tax (expense) credit	**(118)**	**(594)**

(b) Relationship between income tax expense and accounting profit

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

In respect of income tax expense attributable to shareholders, the tax rate which applies in both Australia and New Zealand is 30%. There are certain differences between the amounts of income and expenses recognised in the financial statements and the amounts recognised for income tax purposes. During the period the New Zealand government announced a decrease in the company tax rate from 30% to 28% from 1 January 2011.

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 during the period was 30%.

	Consolidated 2010 $m	Consolidated 2009 $m
Profit before income tax	787	1,218
Policyholder tax credit (expense) recognised as part of the change in policyholder liabilities in determining profit before tax.	62	(441)
Profit before income tax excluding tax charged to policyholders	**849**	**777**
Prima facie tax at the rate of 30%	(255)	(233)
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/taxable in calculating taxable income:		
Shareholder impact of par-business tax treatment	21	37
Non-deductible expenses	(19)	(10)
Non-taxable income	17	20
Tax offsets and credits	9	6
Dividend income from controlled entities	-	-
Other items	(4)	15
Over provided in previous years after excluding amounts attributable to policyholders (1)	45	13
Benefit arising from previously unrecognised tax losses	1	-
Differences in overseas tax rate	(1)	(1)
Effect of change in overseas tax rates	6	-
Income tax (expense) credit attributable to shareholders	(180)	(153)
Income tax (expense) credit attributable to policyholders	62	(441)
Income tax (expense) credit per Income statement	**(118)**	**(594)**

Footnote:

(1) The over provision impact recognised by AMPGH group in 2010 is principally in relation to the retrospective effect of changes in taxation legislation enacted in 2010. The over provision in 2009 by AMPGH group mainly relates to benefits of entering the tax consolidation regime in 2003 not recognised at that time.

Notes to the financial statements
for the year ended 31 December 2010

6. INCOME TAX (CONTINUED)

	Consolidated	
	2010	2009
	$m	$m
(c) Analysis of deferred tax assets		
Expenses deductible and income recognisable in future years	103	133
Unrealised movements on borrowings and derivatives	37	28
Unrealised investment losses	65	98
Losses available for offset against future taxable income	269	188
Other	32	54
Total deferred tax assets	**506**	**501**
(d) Analysis of deferred tax liabilities		
Unrealised investment gains	414	422
Unrealised movements on borrowings and derivatives	34	37
Other	160	157
Total deferred tax liabilities	**608**	**616**
(e) Amounts recognised directly in equity		
Deferred income tax (expense) related to items taken directly to equity during the current period	8	(29)
(f) Unused tax losses and deductible temporary differences not recognised		
Revenue losses	14	15

Notes to the financial statements
for the year ended 31 December 2010

7. RECEIVABLES

	Consolidated	
	2010 $m	2009 $m
Investment income and sales proceeds receivable	211	242
Life insurance contract premiums receivable	271	284
Reinsurance and other recoveries receivable	8	4
Reinsurers' share of life insurance contract liabilities	65	44
Trade debtors(1)	193	208
Other receivables		
- parent entity - tax related amount	-	179
- related parties - other	3	-
- other receivables	135	146
Total receivables(1)(2)	**886**	**1,107**

Footnote:

(1) Trade debtors include trade debtors of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group.

(2) $2m (2009: $4m) of total receivables is expected to be recovered more than 12 months from reporting date.

Notes to the financial statements

for the year ended 31 December 2010

8. INVENTORIES AND OTHER ASSETS

	Consolidated	
	2010	**2009**
	$m	**$m**
Inventories[1]	275	136
Prepayments	28	33
Other assets	9	14
Total inventories and other assets[2][3]	**312**	**183**

Footnote:

(1) Inventories include inventories and development properties of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group and financial planning registers held for resale in the ordinary course of business.

(2) $140m (2009: $51m) of inventories and other assets is expected to be recovered more than 12 months from the reporting date.

(3) Inventories and other assets include inventories and other assets of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group.

Notes to the financial statements

for the year ended 31 December 2010

9. INVESTMENTS IN FINANCIAL ASSETS

	Consolidated	
	2010	2009
	$m	$m
Investments in financial assets measured at fair value through profit or loss		
Equity securities and listed managed investment schemes	32,269	32,481
Debt securities	20,631	20,629
Investments in unlisted managed investment schemes	9,921	10,340
Derivative financial assets	1,870	2,100
Other financial assets(1)	242	173
Total investments in financial assets measured at fair value through profit or loss(2)	**64,933**	**65,723**
Investments in financial assets measured at amortised cost		
Loans and advances	18	-
Debt Securities - held to maturity		
- related parties - other	309	299
Total investments in financial assets measured at amortised cost(3)	**327**	**299**

Footnote:

(1) Other financial assets category includes investments of the life statutory funds and controlled entities of the life statutory funds.

(2) Investments measured at fair value through profit or loss are assets of the life statutory funds and controlled entities of the life statutory funds. The timing of the recovery of these assets will be in a pattern similar to that of policyholder liabilities, refer to Note 20(f).

(3) $102m (2009: $102m) of Total investments in financial assets measured at amortised cost is expected to be recovered more than 12 months from reporting date.

Notes to the financial statements

for the year ended 31 December 2010

10. INVESTMENT PROPERTY

	Consolidated	
	2010	**2009**
	$m	**$m**
Investment property[(1)]		
Directly held	7,122	7,832
Total investment property	**7,122**	**7,832**

Movements in investment property		
Balance at the beginning of the period	7,832	9,227
Additions		
- subsequent expenditure recognised in carrying amount	123	176
Acquisitions (disposal) through business combinations[(2)]	(835)	421
Disposals[(2)]	(197)	(812)
Net gains (losses) from fair value adjustments	290	(1,113)
Foreign currency exchange differences	(12)	(67)
Transfer from inventories	4	-
Transfer (to) inventories	(83)	-
Balance at the end of the period[(3)]	**7,122**	**7,832**

Footnote:

(1) Investment property includes properties of the life statutory funds and investment entities controlled by the life statutory funds of $7,122m (2009: $7,645m) and as such are held on behalf of policyholders.

(2) Additions (disposals) through business combinations and disposals include transactions of investment entities in which the life statutory funds hold a controlling equity interest.

(3) Investment property of $1,418m (2009: $1,440m) held by controlled entities of the life statutory funds has been provided as security against borrowings of these controlled entities of the life statutory funds.

Valuation of investment property
Investment property is measured at fair value at each reporting date. Fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable wiling seller in an arm's length transaction.

Fair values of the AMPGH group's properties are determined by independent registered valuers who have appropriate registered professional qualifications and recent experience in the location and category of the property being valued.

The fair value appraisals are obtained on a rolling annual basis. The valuation schedule may be altered when a property is either undergoing or being appraised for redevelopment, refurbishment or sale, or is experiencing other changes in assets or tenant profiles which may significantly impact value: or when there have been significant changes in the property market and broader economy such as updates to comparable property sales which may have an impact on the individual asset values. The carrying value of each investment property is assessed at reporting date to ensure there has been no material change to the fair value since the valuation date.

The valuers apply 'comparable sales analysis' and the 'capitalised income approach' by reference to annual net market income, comparable capitalisation rates and other property-specific adjustments as well as discounted cash flow analysis where the expected net cash flows are discounted to their present value using a market determined risk adjusted discount rate. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property.

	2010	**2009**
	$m	**$m**
Primary assumptions used in valuing investment property		
Capitalisation rates	6.25% - 9.75%	6.25% - 9%
Market determined, risk adjusted discount rate	7% - 10.35%	8.73% - 11%

Notes to the financial statements
for the year ended 31 December 2010

11. PROPERTY, PLANT AND EQUIPMENT

Consolidated 2010	Owner-occupied property (1) $m	Leasehold improvements $m	Plant & equipment(2) $m	Total $m
Property, plant and equipment				
Gross carrying amount	301	72	300	673
Less: accumulated depreciation and impairment losses	-	(57)	(164)	(221)
Property, plant and equipment at written down value	**301**	**15**	**136**	**452**
Movements in property, plant and equipment				
Balance at the beginning of the period	301	20	154	475
Additions				
- through direct acquisitions	-	-	18	18
- subsequent expenditure recognised in carrying amount	4	1	-	5
Disposals through sale of controlled entities	-	-	(3)	(3)
Increases (decreases) from revaluations recognised directly in equity	(1)	-	-	(1)
Depreciation expense for the period	(3)	(6)	(32)	(41)
Foreign currency exchange differences	-	-	(1)	(1)
Balance at the end of the period	**301**	**15**	**136**	**452**

2009	Owner-occupied property (1) $m	Leasehold improvements $m	Plant & equipment(2) $m	Total $m
Property, plant and equipment				
Gross carrying amount	301	71	299	671
Less: accumulated depreciation and impairment losses	-	(51)	(145)	(196)
Property, plant and equipment at written down value	**301**	**20**	**154**	**475**
Movements in property, plant and equipment				
Balance at the beginning of the period	332	24	236	592
Additions				
- through direct acquisitions	-	-	34	34
- subsequent expenditure recognised in carrying amount	2	-	-	2
Disposals	-	-	(67)	(67)
Increases (decreases) from revaluations recognised directly in equity	(29)	-	-	(29)
Depreciation expense for the period	(4)	(4)	(49)	(57)
Balance at the end of the period	**301**	**20**	**154**	**475**

Footnote:

(1) Owner-occupied property is measured at fair value; had the asset been measured at historic cost the amortised carrying value would have been $199m (2009: $198m).

(2) Plant and equipment includes operating assets of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group.

Notes to the financial statements

for the year ended 31 December 2010

12. INTANGIBLES

Consolidated 2010	Goodwill (1) (2) $m	Capitalised costs(3) $m	Management rights $m	Other intangibles $m	Total $m
Intangibles					
Gross carrying amount	777	512	22	66	1,377
Less: accumulated amortisation and / or impairment losses	(75)	(350)	(2)	(31)	(458)
Intangibles at written down value	**702**	**162**	**20**	**35**	**919**
Movements in intangibles					
Balance at the beginning of the period	730	153	20	37	940
Additions (reductions) through acquisitions (disposal) of controlled entities and other businesses (2)	(9)	-	-	-	(9)
Additions through separate acquisition	-	-	-	3	3
Additions through internal development	-	61	-	-	61
Amortisation expense for the period (4)	-	(47)	-	(10)	(57)
Impairment losses (recognised) or reversed in profit	(19)	-	-	-	(19)
Foreign currency exchange differences	-	-	(1)	-	(1)
Other movements	-	(5)	1	5	1
Balance at the end of the period	**702**	**162**	**20**	**35**	**919**

2009	Goodwill (1) (2) $m	Capitalised costs(3) $m	Management rights $m	Other intangibles $m	Total $m
Intangibles					
Gross carrying amount	786	461	22	63	1,332
Less: accumulated amortisation and / or impairment losses	(56)	(308)	(2)	(26)	(392)
Intangibles at written down value	**730**	**153**	**20**	**37**	**940**
Movements in intangibles					
Balance at the beginning of the period	759	79	20	49	907
Additions (reductions) through acquisitions (disposal) of controlled entities and other businesses (2)	(29)	-	-	-	(29)
Additions through internal development	-	107	-	-	107
Disposals	-	-	-	(4)	(4)
Amortisation expense for the period (4)	-	(29)	-	(9)	(38)
Impairment losses (recognised) or reversed in profit	-	(4)	-	1	(3)
Balance at the end of the period	**730**	**153**	**20**	**37**	**940**

Footnote:

(1) Total goodwill comprises amounts attributable to shareholders of $517m (2009: $517m) and attributable to policyholders of $185m (2009: $213m)

(2) The disposal of goodwill during 2010 relates to the sale of an operating business of controlled entities of the life statutory funds. Disposal of goodwill during 2009 relates to the deconsolidation of New Zealand retirement property business.

(3) Capitalised costs are required to be amortised over their estimated useful lives as well as being assessed for indicators of impairment at each reporting date.

(4) Amortisation expense for the period is included in Operating expenses in the Income statement.

Notes to the financial statements

for the year ended 31 December 2010

12. INTANGIBLES (CONTINUED)

Impairment testing of goodwill
Goodwill includes balances attributable to shareholders and balances attributable to policyholders in investment entities controlled by the life statutory funds.

Goodwill attributable to shareholders
$517m (2009: $517m) of the Goodwill arose from a Life Act Part 9 transfer of life insurance business into the statutory funds of AMP Life. The initial amount recognised represented the value of in force business, the value of new business and the benefits of cost synergies obtained as a result of the integration of the business into AMP Life.

The business acquired included activities conducted in the same business units already operated by AMPGH group. Those business units are Australian Contemporary Wealth Management (CWM), Australian Contemporary Wealth Protection (CWP) and Australian Mature and those business units are identified as the cash generating units for the purpose of assessing goodwill impairment.

Under the transition rules for Australian adoption of International Financial Reporting Standards, the amortised cost value of $517 million at 1 January 2004 was deemed to be the value carried forward and tested annually for impairment. For the purposes of impairment testing, the amount is allocated to the cash generating units as follows:

- Australian CWM – goodwill attributable: $387m;
- Australian CWP – goodwill attributable: $65m; and
- Australian Mature – goodwill attributable: $65m.

There were no other intangible assets with indefinite useful lives allocated to these cash generating units.

The method used for goodwill impairment testing is “fair value less costs to sell”. The recoverable amount is determined considering a combination of estimates of future cash flows, relevant product profit margins and the embedded value. Embedded value is a calculation which represents the economic value of the shareholder capital in the business and the future profits expected to emerge from the business currently in-force expressed in today’s dollars. These indicators are generally taken as features of a life insurance business which taken together would be equivalent to fair value.

Assumptions applied in estimating the embedded value are consistent with the best estimate assumptions used in calculating the policy liabilities of AMP Life except that embedded value includes a risk discount rate. Note 1(t) and Note 19 provide extensive details with respect to the assumptions, management’s approach to determining the values assigned to each key assumption and their consistency with past experience and external sources of information. Note 1(t) discloses that premium and claim amounts are estimated over the expected life of the in-force policies which varies depending on the nature of the product. Note 19 provides details of discontinuance rates used for projections and the fact that future maintenance and investment expenses are based on unit costs derived from budgeted amounts for the following year and increased in future years for expected rates of inflation. The embedded value calculation uses a risk discount rate of the annualised 10 year bond yield of 5.6% in Australia (2009: 5.7%) and 5.7% in New Zealand (2009: 6.2%) with a 3.0% margin (2009: 3.0%).

In each cash-generating unit, the surplus discounted present value of future profits (being embedded value less shareholder capital), is significantly higher than the goodwill held. The impact of the other components of fair value, namely future cash flows, relevant product profit margins net of costs to sell, would have resulted in a further net increase in the surplus.

The conclusion from the testing is that there has been no impairment to the amount of the goodwill recognised and there is no reasonably possible change in key assumptions that could cause the carrying amount to exceed the recoverable amount.

Goodwill attributable to policyholders
The policyholder goodwill has arisen on acquisitions of operating subsidiaries controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMPGH group. The goodwill represents the future value of cash flows expected to be derived from those operating subsidiaries.

The individual goodwill components are not significant in comparison with the total carrying amount of goodwill attributable to policyholders and therefore impairment testing was carried out on the aggregate carrying amount. Impairment testing resulted in an impairment of $19m recognised during the year ended 31 December 2010 (31 December 2009: $nil) as a result of a decline in projected future cash flows in underlying operating subsidiaries controlled by the life statutory funds. At reporting date, there is no reasonably possible change in key assumptions that could cause the carrying amount to exceed the recoverable amount.

Impairment testing of these goodwill balances is based on each asset’s value in use, calculated as the present value of forecast future cash flows from those assets using discount rates of between 13% and 16.8% (2009: 13% and 17%).

The forecast cash flows used in the impairment testing for operating subsidiaries are based on assumptions as to the level of profitability for each business over the forecast period.

Forecasts for the following 12 months have in each case been extrapolated based on long term revenue growth rates of between 0% and 5% pa (2009: 2-5% pa). The projected revenues are based on the businesses in their current condition. The assumptions do not include the effects of any future restructuring to which the entity is not yet committed or as a result of future cash outflows by the entity that will improve or enhance the entity’s performance.

Shareholders have no direct exposure to movements in goodwill attributable to policyholders. However, due to the impact of accounting mismatches on investments in controlled entities of the life statutory funds (see Note 1(d)), policyholder asset movements (including goodwill) can impact the net profit after tax attributable to shareholders. Any impact is temporary in nature, reversing no later than the point at which AMPGH group ceases to control the investments.

Notes to the financial statements

for the year ended 31 December 2010

13. PAYABLES

	Consolidated	
	2010	**2009**
	$m	**$m**
Investment purchases payable	66	78
Life insurance and investment contracts in process of settlement	181	172
Accrued expenses	90	108
Interest payable	41	32
Trade creditors	80	94
Other payables		
- parent entity	840	840
- parent entity - tax related amount	83	-
- other entities	561	443
Total payables (1)(2)	**1,942**	**1,767**

Footnote:

(1) Total payables include payables of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMPGH group.

(2) $26m (2009: $42m) of Total payables of the AMPGH group is expected to be settled more than 12 months from the reporting date.

Notes to the financial statements

for the year ended 31 December 2010

14. PROVISIONS

	Consolidated 2010 $m	Consolidated 2009 $m
(a) Provisions		
Employee entitlements	166	183
Other	82	91
Total provisions	**248**	**274**

	Employee entitlements[1] $m	Other[2] $m	Total $m
(b) Movements in provisions - consolidated			
Balance at the beginning of the period	183	91	274
Additions (reductions) through acquisitions (disposal) of controlled entities	-	(11)	(11)
Additional provisions made during the period	123	85	208
Unused amounts reversed during the period	(4)	(11)	(15)
Provisions used during the period	(135)	(71)	(206)
Foreign exchange movements	(1)	(1)	(2)
Balance at the end of the period	**166**	**82**	**248**

Footnote:

(1) Provisions for employee entitlements are in respect of amounts accumulated as a result of employees rendering services up to the reporting date. These entitlements include salaries, wages, bonuses, annual leave and long service leave, but exclude share-based payments. $6m (2009: $6m) is expected to be settled more than 12 months from the reporting date.

(2) Other provisions are in respect of probable outgoings on data quality and integrity projects, settlements, and various other operational provisions. $2m (2009: $1m) is expected to be settled more than 12 months from the reporting date.

Notes to the financial statements
for the year ended 31 December 2010

15. BORROWINGS

	Consolidated	
	2010	**2009**
	$m	**$m**
Bank overdrafts	-	6
Bank loans	962	1,694
Bonds and notes	1,261	1,708
Deposits	139	155
Other borrowings	60	20
Total borrowings[1]	**2,422**	**3,583**

Footnote:

(1) Total borrowings comprise amounts to fund:

i) Corporate and other shareholder activities of AMPGH group of $764m (2009: $1,115m). Of this balance $353m (2009: $815m) is expected to be settled more than 12 months from the reporting date.

ii) Statutory fund borrowings and borrowings within controlled entities of AMP Life are $1,658m (2009: $2,468m). Of this balance $1,045m (2009: $1,738m) is expected to be settled more than 12 months from the reporting date.

Notes to the financial statements
for the year ended 31 December 2010

16. SUBORDINATED DEBT

	Consolidated 2010 $m	2009 $m
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	56	65
A$ AMP Notes (first call date 2014, maturity 2019)(1)	202	197
NZ$ AMP Notes (first call date 2014, maturity 2019)(1)	87	91
Total subordinated debt (2)	**345**	**353**

Footnote:

(1) $202m A$ AMP Notes and $94m NZ$ AMP Notes were issues in 2009. The carrying value at each reporting date includes accrued interest less capitalised borrowing costs (after amortisation) and, in the case of the NZ$ AMP Notes, is converted to Australian dollars at reporting date.

(2) Subordinated debt amounts are to fund corporate activities of AMPGH group. Of this balance, all (2009: all) is expected to be settled more than 12 months from the reporting date.

Notes to the financial statements
for the year ended 31 December 2010

17. DIVIDENDS

	Consolidated	
	2010	2009
	$m	$m
Dividends Paid		
Dividends paid during the year		
(2010: 7.24 cents per share, 2009: 3.87 cents per share)	374	200
Total dividends paid	**374**	**200**

Notes to the financial statements

for the year ended 31 December 2010

18. CONTRIBUTED EQUITY

	Consolidated	
	2010	2009
	$m	$m
Movements in issued capital		
Balance at the beginning of the period	3,226	3,226
Balance at the end of the period	**3,226**	**3,226**
Total issued capital		
5,161,472,147 (2009: 5,161,472,147) ordinary shares fully paid	**3,226**	**3,226**

Holders of ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares have no par value.

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS

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

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to Note 1(t) for a description of MoS and the methods for calculating life insurance contract liabilities.

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

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment Account	Modified Accumulation	N/A
Risk	Projection / Accumulation	Expected premiums
Participating Allocated Annuities	Accumulation / Modified Accumulation	N/A
Life Annuities	Projection	Annuity payments

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

(i) Risk free discount rates

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

Business Type		Basis	31 December 2010		31 December 2009	
			Australia	New Zealand	Australia	New Zealand
Retail risk		10 year government bond rate	5.6%	6.0%	5.7%	6.2%
Group risk	Outstanding claims	2 year government bond rate	5.2%	4.0%	4.6%	4.3%
Life annuities	Non-CPI	Zero coupon inter-bank swap curve	4.9% - 6.3%	3.1% - 6.0%	4.1% - 6.5%	2.7% - 6.6%
	CPI	Commonwealth Indexed Bond curve + 20 bps	2.8% - 3.0%	2.8%	1.9% - 3.1%	3.0%

(ii) Participating business discount rates

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

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

	Local equities	International equities	Property	Fixed Interest	Cash
Australia					
31 December 2010	3.0%	2.5%	2.0%	0.50%	(0.50%)
31 December 2009	3.0%	2.5%	2.0%	0.25%	(0.50%)
New Zealand					
31 December 2010	3.0%	2.5%	2.0%	0.50%	(0.50%)
31 December 2009	3.0%	2.5%	2.0%	0.25%	(0.50%)

These risk premia do not include any allowance for imputation credits as they are explicitly allowed for in deriving net of tax investment earning assumptions.

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

	Equities	Property	Fixed interest	Cash
Australia				
31 December 2010	30%	11%	39%	20%
31 December 2009	30%	11%	40%	19%
New Zealand				
31 December 2010	40%	17%	37%	6%
31 December 2009	40%	17%	37%	6%

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS (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.

(iii) Future participating benefits

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

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

- allowance for an appropriate degree of benefit smoothing
- reasonable expectations of policyholders
- equity between generations of policyholders applied across different classes and types of business
- ongoing solvency and capital adequacy.

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

Typical supportable bonus rates on major product lines are as follows (31 December 2009 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonuses
Australia	0.7% - 1.1% (0.9% - 1.3%)	1.1% - 1.3% (1.3% - 1.7%)
New Zealand	0.8% - 1.1% (0.7% - 1.0%)	0.8% - 1.1% (0.7% - 1.0%)

Terminal bonus

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

Crediting rates (investment account)

Australia	2.8% - 8.0% (3.3% - 8.9%)
New Zealand	3.5% - 4.0% (3.3% - 4.2%)

(iv) Future maintenance and investment expenses

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

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

(v) Inflation and indexation

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

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

The assumed annual inflation and indexation rates at the valuation date are:

	Australia	New Zealand
31 December 2010	2.9% CPI, 3.0% Expenses	3.3% CPI, 3.0% Expenses
31 December 2009	2.8% CPI, 3.0% Expenses	3.4% CPI, 3.0% Expenses

(vi) Bases of taxation

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

(vii) Voluntary discontinuance

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

Future rates of discontinuance used at 31 December 2010 are unchanged from those assumed at 31 December 2009 except for:

- Australia – reduction in lapse rates for Conventional Superannuation.
- New Zealand – higher withdrawal rates on lump sum risk and a small reduction in lapse rates for whole of life conventional business.

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS (CONTINUED)

Future rates of discontinuance for the major classes of life insurance contracts are assumed to be as shown in the table below.

	31 December 2010		31 December 2009	
Business type	**Australia**	**New Zealand**	**Australia**	**New Zealand**
Conventional	2.1% - 3.0%	1.3% - 2.5%	2.1% - 4.0%	1.3% - 2.6%
Investment account	n/a	n/a	n/a	n/a
Retail risk	10.5% - 11.0%	10.5% - 12.0%	10.5% - 11.0%	9.5% - 12.0%
FLS risk business (ultimate rate)	7.5% - 9.0%	n/a	7.5% - 9.0%	n/a

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

(ix) Mortality and morbidity
Standard mortality tables, based on national or industry wide data, are used (e.g. IA95-97 and IM(F)80 in Australia and New Zealand). These are then adjusted by factors that take account of AMP Life's own experience, primarily over the past three years. For annuity business, adjustment is also made for mortality improvements prior to and after the valuation date.

Rates of mortality assumed at 31 December 2010 are unchanged from those assumed at 31 December 2009 in Australia and New Zealand, except for a 3% reduction for Australian and New Zealand conventional business. Rates of annuitant mortality are unchanged.

Typical mortality assumptions, in aggregate, are as follows:

	Conventional - % of IA95-97		Term - % of IA95-97		FLS Risk - % of IA95-97	
Risk products	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
Australia	75%	75%	63%	63%	63%	63%
New Zealand	73%	73%	63%	63%	63%	63%

Annuities	**Male - % of IM80***	**Female - % of IF80***
Australia & New Zealand	72%	61%

For disability income business, the claim assumptions are currently based on CIDA85, which is derived from North American experience. It is adjusted for AMP Life's experience, with the adjustment dependent on age, sex, waiting period, occupation, smoking status and claim duration. Incidence and termination rates are unchanged from those at 31 December 2009.

For trauma cover, standard tables are not available and so assumptions are mostly based on Australian population statistics, with adjustment for smoking status as well as AMP Life's recent claim experience. Assumptions at 31 December 2010 are unchanged from those used at 31 December 2009.

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.
IM80* / IF80*	IM80 and IF80 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1979–1982. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IM80* and IF80* are these published tables amended for some specific AMP experience.
CIDA85	A disability table developed by the Society of Actuaries based on North American disability income experience from 1973–1979.

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS (CONTINUED)

(x) Impact of changes in assumptions

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

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

The impact on future profit margins of changes in actuarial assumptions from 31 December 2009 to 31 December 2010 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below.

Assumption change	Change in future profit margins $m	Change in life insurance contract liabilities $m	Change in shareholders' profit & equity $m
Non-market related changes to discount rates	14	-	-
Mortality and morbidity	9	-	-
Discontinuance rates	(26)	-	-
Maintenance expenses	(13)	-	-
Other assumptions	27	-	-

In most cases, the overall amount of life insurance contract liabilities and the current period profit are not affected by changes in assumptions.

However, where in the case of a particular related product group, the changes in assumptions at the end of a period eliminate any future profit margins for the related product group, and results in negative future profit margins, this negative balance is recognised as a loss in the current period. If the changes in assumptions in a period are favourable for a product group currently in loss recognition, then the previously recognised losses are reversed in the period.

Changes in maintenance expenses and other assumptions have caused a $1m loss reversal on New Zealand annuities. When split between maintenance expenses and other assumptions in the table above, change for each is less than $1m.

(b) Insurance risk sensitivity analysis – life insurance contracts

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

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

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

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated 2010 $m	Consolidated 2009 $m
(c) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premiums received and receivable	1,802	1,871
Less: component recognised as a change in life insurance contract liabilities	(751)	(854)
Life insurance contract premium revenue(1)	1,051	1,017
Reinsurance recoveries	49	32
Total life insurance contract premium and related revenue	**1,100**	**1,049**
(d) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	(2,344)	(2,227)
Less: component recognised as a change in life insurance contract liabilities	1,103	1,024
Life insurance contract claims expense	(1,241)	(1,203)
Outwards reinsurance expense	(48)	(48)
Total life insurance contract claims and related expenses	**(1,289)**	**(1,251)**
(e) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(56)	(45)
- Other	(88)	(87)
Life insurance contract maintenance expenses		
- Commission	(91)	(85)
- Other	(284)	(268)
Investment management expenses	(39)	(39)

Footnote:

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

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated 2010 $m	Consolidated 2009 $m
(f) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- Value of future life insurance contract benefits	10,765	10,812
- Value of future expenses	2,697	2,588
- Value of future premiums	(9,595)	(9,123)
Value of future profits		
- Life insurance contract holder bonuses	2,021	2,150
- Shareholders' profit margins	2,439	2,373
Total life insurance contract liabilities determined using the projection method (1)	**8,327**	**8,800**
Life insurance contract liabilities determined using accumulation method		
Best estimate liability		
- Value of future life insurance contract benefits	7,664	7,932
- Value of future acquisition expenses	(9)	(10)
Total life insurance contract liabilities determined using accumulation method	**7,655**	**7,922**
Value of declared bonus	**338**	**270**
Unvested life insurance contract holder benefits(1)	**1,377**	**1,344**
Total life insurance contract liabilities before reinsurance	**17,697**	**18,336**
Add: Reinsurers' share of life insurance contract liabilities	65	44
Total life insurance contract liabilities	**17,762**	**18,380**

Footnote:

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

	2010 $m	2009 $m
(g) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the period	18,380	19,250
Change in life insurance contract liabilities recognised in the Income statement	(202)	(641)
Premiums recognised as an increase in life insurance contract liabilities	751	854
Claims recognised as a decrease in life insurance contract liabilities	(1,103)	(1,024)
Change in reinsurers share of life insurance contract liabilities	21	(10)
Foreign exchange adjustment	(85)	(49)
Total life insurance contract liabilities at the end of the period	**17,762**	**18,380**

Notes to the financial statements

for the year ended 31 December 2010

19. LIFE INSURANCE CONTRACTS (CONTINUED)

(h) Life insurance risk

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

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

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

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

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

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

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

Terms and conditions of life insurance contracts

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

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

Notes to the financial statements

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19. LIFE INSURANCE CONTRACTS (CONTINUED)

(i) Liquidity risk and future net cash outflows

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

	Up to 1 year $m	1 to 5 years $m	Over 5 years $m	Total $m
2010	903	2,416	5,420	8,739
2009	1,129	3,120	5,741	9,990

Notes to the financial statements

for the year ended 31 December 2010

20. OTHER LIFE INSURANCE AND INVESTMENT CONTRACT DISCLOSURES

	Consolidated 2010 $m	Consolidated 2009 $m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	410	399
- Profits (losses) arising from difference between actual and assumed experience	18	14
- Capitalised (losses) reversals	1	-
Profit related to life insurance and investment contract liabilities	**429**	**413**
Attributable to:		
- Life insurance contracts	254	321
- Investment contracts	175	92
Investment earnings on assets in excess of life insurance and investment contract liabilities	**90**	**62**

(b) Life statutory funds

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

The Life Act requires the life insurance business of AMP Life to be conducted within life statutory funds. AMP Life has three statutory funds: No 1 fund includes AMP Life's Australia and New Zealand non-investment linked business and a minor amount of investment linked business undertaken by AMP Life's New Zealand branch; No 2 and No 3 funds include all AMP Life's investment linked business conducted in Australia.

Investments held in the life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions provided solvency, capital adequacy and other regulatory requirements are met. See further details about solvency and capital adequacy in Note 20(d).

Australian Accounting Standards require the income, expenses, assets and liabilities in the financial statements of AMP Life to include amounts attributable to policyholders in investment linked and non-investment linked business of the life statutory funds. The following table shows a summary of the balances in the life statutory funds disaggregated between non-investment linked and investment linked business:

	2010			2009		
	Non-Investment Linked $m	Investment Linked $m	Total Life Statutory Funds $m	Non-Investment Linked $m	Investment Linked $m	Total Life Statutory Funds $m
Assets of life statutory funds						
Net assets of life statutory funds attributable to policyholders and shareholders	**21,927**	**46,434**	**68,361**	**22,310**	**45,151**	**67,461**
Attributable to policyholders						
Life insurance contract liabilities	17,762	-	17,762	18,380	-	18,380
Investment contract liabilities	2,562	46,017	48,579	2,424	44,815	47,239
	20,324	**46,017**	**66,341**	**20,804**	**44,815**	**65,619**
Attributable to shareholders	**1,603**	**417**	**2,020**	**1,506**	**336**	**1,842**

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.

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20. OTHER LIFE INSURANCE AND INVESTMENT CONTRACT DISCLOSURES (CONTINUED)

Impact of the life statutory funds amounts on the AMPGH group consolidated financial statements
To the extent that investments by the life statutory funds are held through wholly or partly owned controlled entities of the life statutory funds, the balances of those controlled entities are consolidated by AMP Life and therefore become part of the consolidated balances of this AMPGH group Financial Report. The consolidated balances include 100% of the underlying investments in financial assets, investment property, and other net operating assets of the controlled entities of the life statutory funds. Most of the controlled entities are unit trusts and the share of the consolidated profit and net assets of those trusts attributable to unitholders other than the AMP Life statutory funds is recognised in the consolidated Income statement as Movement in external unitholders' liabilities and in the consolidated Statement of financial position as External unitholders' liabilities.

The following table shows a summary of the consolidated balances of the life statutory funds and the entities controlled by the life statutory funds.

	Life statutory funds consolidated	
	2010	2009
	$m	$m
Income statement		
Insurance premium and related revenue	1,100	1,049
Fee revenue	862	805
Other revenue	257	238
Investment gains and (losses)	4,053	7,740
Insurance claims and related expenses	(1,289)	(1,251)
Operating expenses including finance costs	(1,970)	(1,828)
Movement in external unitholders' liabilities	(317)	(364)
Change in life insurance contract liabilities	202	641
Change in investment contract liabilities	(2,259)	(5,951)
Income tax (expense) / credit	(144)	(600)
Profit[(1)]	**495**	**479**
Statement of financial position		
Assets		
Cash and cash equivalents	5,233	3,540
Investments in financial assets measured at fair value through profit or loss	64,399	65,645
Investment property	7,423	7,863
Other assets	1,622	2,038
Total assets of policyholders, shareholders and non-controlling interests	**78,677**	**79,086**
Liabilities		
Life insurance contract liabilities	17,762	18,380
Investment contract liabilities	48,579	47,239
Other liabilities	3,829	4,962
External unitholders' liabilities	6,386	6,556
Total liabilities of policyholders, shareholders and non-controlling interests	**76,556**	**77,137**
Net assets[(1)]	**2,121**	**1,949**

(1) Consolidated profit and consolidated net assets of the life statutory funds and the entities controlled by the life statutory funds include the impact of accounting mismatches adjusted in respect of investments in controlled entities of life statutory funds, and the share of profit and net assets of controlled companies attributable to non-controlling interests.

Notes to the financial statements

for the year ended 31 December 2010

20. OTHER LIFE INSURANCE AND INVESTMENT CONTRACT DISCLOSURES (CONTINUED)

(c) Capital guarantees

	Consolidated	
	2010	**2009**
	$m	**$m**
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,758	14,082
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	1,101	1,158
Other life insurance contracts with a guaranteed termination value		
- Current termination value	131	138

(d) Solvency and capital adequacy

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

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

- solvency requirement
- capital adequacy requirement.

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

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded the solvency reserve required at all times during the reporting period. Across all the life statutory funds, the excess assets, expressed as a percentage of the solvency reserve, at 31 December 2010 were 71% (31 December 2009: 76%).

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

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded the capital adequacy reserve required at all times during the reporting period. For this purpose, the capital adequacy reserve is defined as the solvency reserve, plus the difference between the capital adequacy requirement and the solvency requirement. Across all the life statutory funds, the excess assets, expressed as a percentage of the capital adequacy reserve, as at 31 December 2010 was 36% (31 December 2009: 36%).

(e) Actuarial information

Mr Rocco Mangano, as the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the Financial Report and in the tables in this Note and Note 19.

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

(f) Amounts expected to be recovered or settled more than 12 months from the reporting date

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately $55,577m (2009: $55,856m) of policy liabilities may be settled more than 12 months from the reporting date.

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION

Financial Risk Management Objectives

The AMPGH group's risk management is carried out in accordance with policies set by the AMP Limited board for the management of risks within the AMP group. The principal objective of AMP group's Financial Risk Management (FRM) is to establish a robust structure for identifying, assessing, responding to, measuring, monitoring, reporting and escalating financial risks. The framework operates under the AMPGH group's risk appetite statement that includes consideration of risk to capital and risk to earnings.

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

Financial Risk Management Structure

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

Executive committees oversee the management and monitoring of financial risks and capital management. These committees include Group Asset and Liability Committee (Group ALCO) for AMP group, Life ALCO for AMP Life and the Financial Risk and Capital Committee (FRCC) for AMP Capital Investors. The Debt Committee, a sub-committee of Group ALCO, also reviews and monitors debt financing risk across the AMPGH group. These executive committees report to the respective audit committees and Boards.

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

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

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

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

Information about the AMP group's capital management activities, including the relationship with regulatory requirements on the regulated entities, within the AMP group is provided in Note 22.

(a) Risks and mitigation

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

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

The risk appetite of the AMPGH group includes an allocation of risk to the Seed Pool. The Seed Pool is designed to assist business growth through the acquisition of assets to seed new funds or investment opportunities. The AMPGH group seeks to generate future revenues from the subsequent on-sale of these assets to clients through new or existing funds.

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

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

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(b) Market risk sensitivity analysis

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

The sensitivity is required to show the impact of a reasonably possible change in market rate (it is not intended to illustrate a remote, worst case or stress test scenario) 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.

There is no market risk relating to any financial instruments of the parent. All comments and analysis in the remainder of this note relate to the AMP consolidated group.

(i) Interest rate risk

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

Interest rate risk arises from interest bearing financial assets and financial liabilities in various activities of the AMPGH group. Management of those risks is decentralised according to the activity. Details are as follows:

- *AMPGH group's long-term borrowings and subordinated debt* - Interest rate risk arises in relation to long-term borrowings and subordinated debt raised through a combination of Australian dollar, New Zealand dollar, pound sterling and euro denominated fixed-rate and floating-rate facilities. The foreign denominated debt is converted to floating-rate Australian dollars through cross-currency swaps. Interest rate risk is managed by entering floating-to-fixed interest-rate swaps, which have the effect of converting borrowings from floating rates to fixed rates. Under the interest-rate swaps, the AMPGH group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

  AMPGH group policy is to maintain between 40–60% of borrowings and subordinated debt at fixed rates. At the reporting date, 56% (2009: 57%) of the AMP group's borrowings and subordinated debt were effectively at fixed rates.

- *AMP Life* - As discussed in Note 1(b), AMP Life conducts wealth management and life insurance business through separate life statutory funds. Investment assets of the life statutory funds including interest-bearing financial assets are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital.

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

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

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

Notes to the financial statements

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21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

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

	2010		2009	
	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)
Change in variables	**$m**	**$m**	**$m**	**$m**
+100 basis points	(11)	(7)	(22)	(17)
-100 basis points	13	9	22	17

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

Other than where the impact would be immaterial, all corporate debt is converted to Australian dollars through cross-currency swaps, individual investment assets in shareholder capital (excluding the international equities portfolio attributable to shareholders within the life Statutory Fund No.1 fund) and in the seed pool are hedged, and expected foreign currency receipts and payments are hedged once the value and timing of the expected cash flow is known. AMPGH group does not hedge the capital invested in overseas operations (other than foreign Seed Pool investments), thereby accepting the foreign currency translation risk on invested capital.

Currency risk sensitivity analysis
This analysis demonstrates the impact of a 10% movement of currency rates against the Australian dollar, with all other variables held constant, on the profit after tax and equity due to changes in fair value of currency sensitive monetary assets and liabilities at the reporting date. It is assumed that the 10% change occurs as at the reporting date. A sensitivity level of 10% is determined considering the range of currency exposures in the AMPGH group.

	2010		2009	
	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)	Impact on profit after tax Increase (decrease)	Impact on equity Increase (decrease)
Change in variables	**$m**	**$m**	**$m**	**$m**
10% depreciation of AUD	8	8	9	9
10% appreciation of AUD	(8)	(8)	(9)	(9)

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(iii) Equity price risk

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

Equity price risk sensitivity analysis

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

	2010		2009	
	Impact on profit after tax Increase (decrease) $m	Impact on equity Increase (decrease) $m	Impact on profit after tax Increase (decrease) $m	Impact on equity Increase (decrease) $m
10% increase in Australian equities	9	9	15	15
10% increase in International equities	8	8	9	9
10% decrease in Australian equities	(9)	(9)	(15)	(15)
10% decrease in International equities	(8)	(8)	(9)	(9)

(c) Liquidity and re-financing risk

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

To ensure that the AMP group has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, AMP Treasury maintains a defined surplus of cash plus projected cash inflows over projected outflows in a going-concern scenario, to cover regulatory requirements and achieve internal management guidelines. To mitigate refinancing risk, the AMP group's projected cumulative funding resources are required to exceed its projected cumulative funding requirements over specified maturity periods.

The AMPGH group's FRM Policy includes a Liquidity Crisis Management Policy. Compliance with this Liquidity Crisis Management Policy includes a requirement that the AMPGH group has access to funding through committed standby facilities, external bank liquidity facilities, commercial paper and medium-term note programmes.

At 31 December 2010, a number of breaches occurred in relation to external bank loans owing by entities controlled by the life statutory funds. The carrying amount of these loans was $267m (2009: $135m), for which formal waivers from financiers have been obtained for loans of $144m. The financiers of these loans do not have legal recourse beyond the operating subsidiary borrower and there is no direct effect on any other AMPGH group debt.

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

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

Maturity profiles of undiscounted financial liabilities and off balance sheet items(1)(2)(3)

2010	Up to 1 Year or no term $m	1 to 5 Years $m	Over 5 Years $m	Other $m	Total $m
Non-derivative financial liabilities					
Payables	(1,916)	(26)	-	-	(1,942)
Borrowings	(1,129)	(2,086)	-	-	(3,215)
Subordinated debt	(36)	(385)	(94)		(515)
Investment contract liabilities(2)	(749)	(946)	(1,463)	(46,017)	(49,175)
External unit-holders' liabilities	-	-	-	(5,892)	(5,892)
Derivative financial liabilities					
Cross currency swaps					
- Outflows	(38)	(549)	(123)	-	(710)
- Inflows	21	451	62	-	534
Interest rate swaps	(2)	5	16	-	19
Total undiscounted financial liabilities and off balance sheet items(3)	**(3,849)**	**(3,536)**	**(1,602)**	**(51,909)**	**(60,896)**
2009					
Non-derivative financial liabilities					
Payables	(1,725)	(37)	(5)		(1,767)
Borrowings	(1,463)	(2,504)	(270)	-	(4,237)
Subordinated debt	(31)	(404)	(98)	-	(533)
Investment contract liabilities(2)	(579)	(1,166)	(1,467)	(44,815)	(48,027)
External unit-holders' liabilities	-	-	-	(6,121)	(6,121)
Derivative financial liabilities					
Cross currency swaps					-
- Outflows	(274)	(573)	(121)	-	(968)
- Inflows	203	558	74	-	835
Interest rate swaps	(14)	(8)	22	-	-
Total undiscounted financial liabilities and off balance sheet items(3)	**(3,883)**	**(4,134)**	**(1,865)**	**(50,936)**	**(60,818)**

Footnote:

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

(2) Investment contract liabilities of $46,107m (2009: $44,815m) are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all those policyholders claimed their funds, there may be some delays in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk. External unitholders' liabilities all relate to controlled entities of the life statutory funds and would only be paid when the corresponding assets are realised.

(3) Estimated net cash outflow profile of life insurance contract liabilities is disclosed in Note 19(i).

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(d) Credit risk

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

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

Credit risk management is decentralised in business units within the AMP group; however, credit risk directly impacting shareholder capital is measured and managed by AMP Treasury by aggregating risk from credit exposures taken in business units as detailed below. In addition, group limits are allocated to business units to keep individual credit exposures from aggregating across the group in excess of group limits.

- *AMP Life* - Credit risk on the invested fixed income portfolios in the AMP Life statutory funds is managed by the AMP Capital Investors Risk and Compliance Committee (AMPCI R&C) and reported to the fund managers, within specified credit criteria in the mandate approved by the AMP Life Board. The shareholder portion of credit risk in AMP Life is reported to AMP group ALCO by AMP Treasury.

- *AMP Capital Investors* - Credit risk on fixed Income portfolios managed by AMP Capital Investors (AMPCI) (consistent with interest rate and foreign currency risk) is managed by the AMPCI R&C Committee and reported to the fixed income desk. This credit risk arises as part of a broader portfolio of investments under investment mandates with AMP Capital and, when relating directly to shareholder funds, is included in the aggregation by AMP Treasury and reported to AMP group ALCO.

(i) Management of credit risk concentration

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

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

The counterparties to non-exchange traded contracts are limited to companies with investment grade credit (BBB- or greater). The credit risks associated with these counterparties are assessed under the same management policies as applied to direct investments in the AMPGH group's portfolio.

Compliance is monitored and exposures and breaches are reported to senior management through the FRM Report.

(ii) Exposure to credit risk

AMPGH group's maximum exposure to credit risk on recognised financial assets, without taking account of any collateral or other credit enhancements as at the reporting date was $23,751m (2009: $34,450m). This amount includes (i) financial assets of investment linked business in AMP Life where the liability to policyholders is linked to the performance and value of the assets that back those liabilities and consequently there is no exposure to shareholders, and (ii) other items arising in the course of operations which are managed by the respective business units.

The exposures on the interest bearing securities and cash equivalents which impact the AMP group's capital position are managed by AMP Group Treasury within limits set by the AMP Group's FRM policy. The following table provides information regarding the credit risk exposures for those items according to the credit rating of the counterparties.

	2010 $m	2009 $m
AAA	4,182	3,716
AA- to AA+	5,006	4,750
A- to A+	2,468	1,496
BBB- to BBB+	1,519	873
BB+ and below	220	240
Total financial assets with credit risk exposure managed by AMP Treasury	13,395	11,075

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for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(iii) Past due but not impaired financial assets of the AMPGH group

The following table provides an aging analysis of financial assets that are past due as at reporting date but not impaired. No disclosures are required for the parent entity as the parent entity does not have any financial assets that are past due but not impaired at reporting date.

	Past due but not impaired				
2010	**Less than 31 days $m**	**31 to 60 days $m**	**61 to 90 days $m**	**More than 91 days $m**	**Total $m**
Receivables					
- Reinsurance and other recoveries receivables	1	-	-	-	1
- Trade debtors	6	1	1	6	14
- Other receivables	-	-	1	1	2
Total (1)	7	1	2	7	17

	Past due but not impaired				
2009	**Less than 31 days $m**	**31 to 60 days $m**	**61 to 90 days $m**	**More than 91 days $m**	**Total $m**
Receivables					
- Reinsurance and other recoveries receivable	2	1	-	-	3
- Trade debtors	15	5	-	1	21
- Other receivables	3	7	-	1	11
Total (1)	**20**	**13**	**-**	**2**	**35**

Footnote:

(1) For investment-linked business in AMP Life, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Therefore, the tables in this section do not show the past due financial assets backing investment-linked business in AMP Life.

(iv) Adjustment for own credit risk in the determination of the fair value of life investment contract policy liabilities

The fair value of non-investment linked investment contract liabilities includes the following allowance for the credit risk that an external party would ascribe to an amount due from AMP Life:

	2010 $m	**2009 $m**
Cumulative adjustment	19	15
Change during the period	4	(32)

The adjustment has been determined as the difference between the fair value recognised and an amount calculated on the same basis using a risk-free interest rate in place of the fair value discount rate.

(e) Derivative financial instruments

Derivative financial instruments are measured at fair value in the Statement of financial position as assets and liabilities. Asset and liability values on individual transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in values of derivative financial instruments are recognised in the Income statement unless they qualify as effective cash flow hedges or net investment hedges for accounting purposes, as set out in Note 1(q).

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

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

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

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(ii) Derivative transactions undertaken by non life insurance controlled entities
AMP Treasury uses derivative financial instruments to hedge financial risk from movements in interest rates and foreign exchange rates. Swaps, forwards, futures and options in the interest rate and foreign exchange markets may be used. A description of each of these derivatives is given below.

- *Swaps* – a swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified payment or settlement dates. Swap transactions undertaken by the AMP group include interest-rate swaps, which involve the contractual exchange of fixed and floating interest rate payments in a single currency based on a notional amount and a reference rate (For example BBSW), and cross-currency swaps which involve the exchange of interest payments based on two different currency principal balances and reference interest rates, and generally also entail exchange of principal amounts at the start and/or end of the contract.
- *Forward and futures contracts* – these are agreements between two parties establishing a contractual interest rate on a notional principal over a specified period, commencing at a future date. Forward contracts are tailor-made agreements that are transacted between counter parties in the over-the-counter market (OTC), whereas futures are standardised contracts transacted on regulated exchanges.
- *Options* – an option contract gives the option buyer the right, but not the obligation, to buy or sell a specified amount of a given commodity or financial instrument at a specified price during a certain period or on a specific date. The seller of the option contract is obliged to perform if the holder exercises the right contained therein. Options may be traded OTC or on a regulated exchange.

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

(f) Accounting for hedges

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies for hedge accounting.

Derivative transactions may qualify either as fair value hedges or cash flow hedges or hedges of net investments in foreign operations. The AMPGH group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1(q), where terms used in the following section are also explained.

The AMPGH group also enters into derivative transactions that provide economic hedges but do not meet the requirements for hedge accounting treatment.

(i) 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.

During 2010, the AMPGH group recognised a net loss of $76m (2009: $157m net loss) on hedging instruments. The net gain on hedged items attributable to the hedged risks amounted to $82m (2009:$158m gain).

(ii) Derivative instruments accounted for as cash flow hedges
The AMPGH group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at fixed and variable rates. The AMPGH group uses interest rate swaps and cash flow hedges to mange interest rate risks.

The following schedule shows, as at reporting date, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit and loss:

	0-1 year	1-2 years	2-3 years	3-4 years	4-5 years
	$m	$m	$m	$m	$m
2010					
Cash inflows	10	11	12	6	-
Cash outflows	(9)	(9)	(9)	(5)	-
Net cash inflow/(outflow)	**1**	**2**	**3**	**1**	**-**
2009					
Cash inflows	9	11	12	13	7
Cash outflows	(9)	(9)	(9)	(9)	(5)
Net cash inflow/(outflow)	**-**	**2**	**3**	**4**	**2**

Nil (2009: Nil) was recognised in the Income statement due to hedge ineffectiveness from cash flow hedges.

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(iii) Hedges of net investments in foreign operations

AMPGH group hedges its exposure to changes in exchange rates on the value of its foreign currency denominated Seed Pool investments. Gains or losses on effective hedges are transferred to equity to offset any gains or losses on translation of the net investment in foreign operations.

AMPGH group recognised a profit of nil (2009: $1m) due to the ineffective portion of hedges relating to investments in foreign operations.

(g) Fair values

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Statement of financial position at fair value. Bid prices are used to estimate the fair value of assets, whereas offer prices are applied for liabilities.

	Carrying amount 2010 $m	Aggregate fair value 2010 $m	Carrying amount 2009 $m	Aggregate fair value 2009 $m
Financial assets				
Debt securities - Held to maturity	309	309	299	299
Loans and advances	18	18	-	-
Total financial assets	**327**	**327**	**299**	**299**
Financial liabilities				
Bank loans	962	962	1,694	1,694
Bonds and notes	1,261	1,268	1,708	1,721
Deposits	182	182	155	155
Subordinated Floating Rate Note	345	378	353	380
Other loans	60	60	20	20
Total financial liabilities	**2,810**	**2,850**	**3,930**	**3,970**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer to Note 1(q) for fair value estimation methods.

(i) Debt securities

The estimated fair value of loans and interest bearing securities represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the loans and interest bearing securities. 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 carried 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.

(ii) Borrowings

Borrowings comprise domestic commercial paper, drawn liquidity facilities and various floating-rate and medium-term notes. The fair values of borrowings are predominantly hedged by derivative instruments – mainly cross-currency and interest-rate swaps. 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.

(iii) Subordinated debt

Subordinated debt comprises listed securities and their fair value is determined with reference to the actual quoted market prices at reporting date. The fair value of subordinated debt is predominantly hedged by derivative instruments – mainly cross-currency and interest-rate swaps

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

(h) Fair value measures

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

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

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

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

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

2010	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	31,394	216	659	32,269
Debt securities	-	20,403	228	20,631
Investments in unlisted managed investment schemes	-	9,580	341	9,921
Derivative financial assets	232	1,638	-	1,870
Other financial assets	72	170	-	242
Total financial assets	**31,698**	**32,007**	**1,228**	**64,933**
Liabilities				
Derivative financial liabilities	50	541	-	591
Investment contract liabilities	-	1,995	46,584	48,579
Total financial liabilities	**50**	**2,536**	**46,584**	**49,170**

2009	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Assets				
Equity securities and listed managed investment schemes	31,155	635	691	32,481
Debt securities	-	20,283	346	20,629
Investments in unlisted managed investment schemes	-	9,998	342	10,340
Derivative financial assets	460	1,630	10	2,100
Other financial assets	-	173	-	173
Total financial assets	**31,615**	**32,719**	**1,389**	**65,723**
Liabilities				
Derivative financial liabilities	337	783	-	1,120
Investment contract liabilities	-	1,733	45,506	47,239
Total financial liabilities	**337**	**2,516**	**45,506**	**48,359**

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

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

2010	Balance at the beginning of the period $m	FX gains or losses $m	Total gains/ losses $m	Purchases/ deposits $m	Sales/ with-drawals $m	Net transfers in/(out) $m	Balance at the end of the period $m	Total gains and losses of assets and liabilities held at Balance date $m
Assets								
Equity securities and listed managed investment schemes	691	-	(16)	29	(25)	(20)	659	(16)
Debt securities	346	-	46	26	(178)	(12)	228	46
Investments in unlisted managed investment schemes	342	-	(71)	69	(19)	20	341	(71)
Derivative financial assets	10	-	-	-	-	(10)	-	-
Total financial assets	**1,389**	**-**	**(41)**	**124**	**(222)**	**(22)**	**1,228**	**(41)**
Liabilities								
Investment contract liabilities	45,506	(6)	1,342	7,585	(7,843)	-	46,584	1,320
Total financial liabilities	**45,506**	**(6)**	**1,342**	**7,585**	**(7,843)**	**-**	**46,584**	**1,320**
2009								
Assets								
Equity securities and listed managed investment schemes	776	-	(95)	40	(36)	6	691	(94)
Debt securities	263	-	2	120	(54)	15	346	2
Investments in unlisted managed investment schemes	283	-	(19)	99	(28)	7	342	(18)
Derivative financial assets	10	-	(1)	1	-	-	10	(1)
Total financial assets	**1,332**	**-**	**(113)**	**260**	**(118)**	**28**	**1,389**	**(111)**
Liabilities								
Investment contract liabilities	39,771	-	5,116	6,580	(5,961)	-	45,506	5,076
Total financial liabilities	**39,771**	**-**	**5,116**	**6,580**	**(5,961)**	**-**	**45,506**	**5,076**

Notes to the financial statements

for the year ended 31 December 2010

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION (CONTINUED)

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

2010	Carrying amount $m	Effect of reasonably possible alternative assumptions [1] (+) $m	(-) $m
Assets			
Equity securities and listed managed investment scheme	659	20	(20)
Debt Securities	228	-	-
Investments in unlisted managed investment schemes	341	-	-
Derivative financial assets	-	-	-
	1,228	**20**	**(20)**
Liabilities			
Investment contract liabilities	48,579	(10)	10
	48,579	**(10)**	**10**

2009	Carrying amount $m	Effect of reasonably possible alternative assumptions [1] (+) $m	(-) $m
Assets			
Equity securities and listed managed investment scheme	691	31	(31)
Debt Securities	346	-	-
Investments in unlisted managed investment schemes	342	4	**(4)**
Derivative financial assets	10	-	-
	1,389	**35**	**(35)**
Liabilities			
Investment contract liabilities	45,506	(15)	15
	45,506	**(15)**	**15**

Footnote:

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

Notes to the financial statements

for the year ended 31 December 2010

22. CAPITAL MANAGEMENT

AMPGH group manages its capital within the framework of the AMP group capital management strategy.

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

The AMP group's capital resources include ordinary equity and interest-bearing liabilities. The AMP group excludes interest-bearing liabilities of its banking subsidiary, AMP Bank Limited, and controlled investment subsidiaries and trusts from the AMP group capital resources. Included within interest-bearing liabilities are subordinated debt and other instruments that would qualify as regulatory capital under Australian Prudential Regulation Authority (APRA) standards.

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

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

A number of the operating entities within the AMP group of companies are regulated. The AMP group of companies includes an authorised deposit-taking institution, a life insurance company and approved superannuation trustee all regulated by APRA. A number of companies also hold Australian Financial Services Licences.

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

- AMP Life Limited – solvency, capital adequacy and management capital requirements as specified under the Life Act and APRA Life Insurance Prudential Standards
- AMP Capital Investors Limited – capital and liquidity requirements under its Australian Financial Services Licence

All 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.

Notes to the financial statements

for the year ended 31 December 2010

23. NOTES TO STATEMENT OF CASH FLOWS

	Consolidated	
	2010	**2009**
	$m	**$m**
(a) Reconciliation of the net profit after income tax to cash flows from operating activities		
Net profit after income tax	669	624
Depreciation of operating assets	41	57
Amortisation and impairment of intangibles	76	41
Investment gains and losses and movements in external unitholders liabilities	1,083	(3,656)
Dividend and distribution income reinvested	(239)	(253)
Share based payments	23	14
Decrease (increase) in receivables, intangibles and other assets	(56)	42
(Decrease) increase in net policy liabilities	722	4,859
(Decrease) increase in income tax balances	(3)	590
(Decrease) increase in other payables and provisions	62	328
Cash flows from (used in) operating activities	**2,378**	**2,646**
(b) Reconciliation of cash		
Comprises:		
Cash on hand	1,516	986
Cash on deposit	3,415	2,948
Bank overdrafts (included in Borrowings)	-	(6)
Short-term bills and notes (included in Debt securities)	2,666	2,707
Balance at the end of the period	**7,597**	**6,635**
(c) Financing arrangements		
(i) Overdraft facilities		
Bank overdraft facility available	379	321
(ii) Credit standby facilities		
Revolving and standby credit facilities		
Available	-	100
Used	-	-
Unused	**-**	**100**
(iii) Loan facilities		
In addition to facilities arranged through bond and note issues (refer Notes 15 and 16), financing facilities are provided through bank loans under normal commercial terms and conditions.		
Available	2,207	2,834
Used	(1,305)	(1,722)
Unused	**902**	**1,112**
(iv) Bond and note funding programs		
Available	7,588	8,475
Used	(3,298)	(2,056)
Unused	**4,290**	**6,419**

Notes to the financial statements

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23. NOTES TO STATEMENT OF CASH FLOWS (CONTINUED)

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

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

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

During 2010, AMPGH group's interest in the AMP Shopping Centre Fund, a controlled entity of the life statutory funds, was diluted due to an issue of units to the external unitholders by the AMP Shopping centre fund, resulting in AMP group ceasing to control this entity. AMP Shopping Centre Fund has significant assets and liabilities other than investment assets and cash. AMP continued to hold a non-controlling interest in the AMP Shopping Centre Fund.

The impact of ceasing to control the AMP Shopping Centre Fund was a reduction of the following assets and liabilities in the consolidated Statement of financial position:

Item	Impact in 2010 $m
Cash and cash equivalents	(18)
Receivables	(21)
Inventories and other assets	(1)
Investments in financial assets measured at fair value through profit or loss	(299)
Investment property	(824)
Payables and provisions	(30)
Derivative financial liabilities	(16)
Borrowings	(375)
External unitholders' liabilities	(742)

There was no consideration received by AMPGH group on loss of control.

There were no other significant acquisitions or disposals of controlled operating businesses during 2010.

Notes to the financial statements

for the year ended 31 December 2010

24. SUPERANNUATION FUNDS

AMPGH group contributes to two funded employer-sponsored superannuation funds that exist to provide benefits for employees and their dependants on resignation, retirement, disability or death of the employee. The funds consist of both defined contribution sections and defined benefit sections.

The defined contribution sections receive fixed contributions from AMPGH group companies and the AMPGH group's legal obligation is limited to these contributions. The defined benefit sections provide members with a choice of lump sum benefits or pension benefits based on years of membership and final salary. New employees are only offered defined contribution style benefits.

The disclosures in this note relate only to the defined benefit sections of the plans.

The following tables summarise the components of the net amount recognised in the consolidated Income statement, the movements in the defined benefit obligation and plan assets, and the net amounts recognised in the consolidated Statement of financial position for the defined benefit funds, determined in accordance with AASB 119 "*Employee benefits*".

However, for the purposes of recommending contributions to the defined benefit funds, fund actuaries consider the positions of the funds as measured under AAS25 '*Financial reporting by superannuation plans'* (Australia) and Professional standard number 2 "*Actuarial reporting for superannuation schemes*" (New Zealand) both of which determines the funds' liabilities according to different measurement rules than those in AASB 119, largely due to the use of different discount rates in valuing benefits. Refer to Note 24 (g) for impacts on funding the AMPGH group defined benefits funds.

	Consolidated	
	2010	2009
	$m	$m
(a) Defined benefit plan income (expense)		
Current service cost	(1)	(1)
Interest cost	(18)	(14)
Expected return on plan assets(1) (2)	20	15
Total defined benefit plan income (expense)	**1**	**-**
(b) Movements in defined benefit obligation		
Balance at the beginning of the period	(345)	(393)
Current service cost	(1)	(1)
Interest cost	(18)	(14)
Actuarial gains and losses (3)	(4)	44
Foreign currency exchange rate changes	8	-
Benefits paid	19	19
Balance at the end of the period	**(341)**	**(345)**
(c) Movement in fair value of plan assets		
Balance at the beginning of the period	289	273
Expected return on plan assets	20	15
Actuarial gains and losses (3)	(11)	17
Foreign currency exchange rate changes	(8)	-
Employer contributions	3	3
Benefits paid	(19)	(19)
Balance at the end of the period	**274**	**289**

Footnote:

(1) The expected return on plan assets is determined at the beginning of the period, and is based on financial modelling of expected real returns for each of the major asset classes, combined with the price inflation assumption to arrive at a nominal value for expected returns on plan assets.

(2) The actual return on fund assets for the period was a gain of $9m (2009: $32m).

(3) As explained in Note 1(dd), actuarial gains and losses are recognised directly in Other comprehensive income.

Notes to the financial statements

for the year ended 31 December 2010

24. SUPERANNUATION FUNDS (CONTINUED)

	Consolidated 2010 $m	Consolidated 2009 $m
(d) Defined benefit (liability) asset		
Present value of wholly funded defined benefit obligations	(341)	(345)
Less: Fair value of plan assets	274	289
Defined benefit (liability) asset recognised on the Statement of financial position	**(67)**	**(56)**
Movement in defined benefit (liability) asset		
(Deficit) surplus at the beginning of the period	(56)	(120)
Plus: Total income (expenses) recognised in income	1	-
Plus: Employer contributions	3	3
Plus: Actuarial gains (losses) recognised in Other comprehensive income [1]	(15)	61
Defined benefit (liability) asset recognised at the end of the period	**(67)**	**(56)**

Footnote:

(1) The cumulative amount of the net actuarial gains recognised in the Statement of comprehensive income is a loss of $15m (2009: $30m gain).

(e) Historical analysis of defined benefit (deficit) surplus

	Consolidated 2010 $m	2009 $m	2008 $m	2007 $m
Australian defined benefit (liability) asset				
Present value of wholly funded defined benefit obligations	(317)	(312)	(362)	(342)
Less: Fair value of plan assets	260	267	251	352
Net defined benefit (liability) asset recognised in the Statement of financial position	**(57)**	**(45)**	**(111)**	**10**
Actuarial gains and (losses) arising on plan liabilities	(4)	47	(24)	(35)
Actuarial gains and (losses) arising on plan assets	(10)	17	(107)	11
New Zealand defined benefit (liability) asset				
Present value of wholly funded defined benefit obligations	(24)	(33)	(31)	(45)
Less: Fair value of plan assets	14	22	22	44
Net defined benefit (liability) asset recognised in the Statement of financial position	**(10)**	**(11)**	**(9)**	**(1)**
Actuarial gains and (losses) arising on plan liabilities	-	(3)	1	1
Actuarial gains and (losses) arising on plan assets	(1)	-	(7)	(2)

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24. SUPERANNUATION FUNDS (CONTINUED)

(f) 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:

	Australia		New Zealand	
	2010	**2009**	**2010**	**2009**
Discount rate	5.5%	5.7%	4.2%	4.2%
Expected return on assets (before tax)	7.8%	8.0%	6.3%	6.3%
Expected rate of pension increases	2.5%	2.5%	2.2%	2.3%
Expected rate of salary increases	4.0%	4.0%	n/a	n/a
Proportion of benefits expected to be taken as pensions	60.0%	60.0%	n/a	n/a
Inflation rate	n/a	n/a	2.5%	2.5%

(g) Arrangements for employer contributions for funding defined benefit funds

Funding methods and current recommendations – Australia

The Australian defined benefit fund's funding policy is intended to fully cover benefits by the time they become payable. The method of funding adopted is the attained age normal method. This funding method aims to spread the cost of future benefits for current members evenly over their future working lifetimes.

The economic assumptions used to determine the current contribution recommendations are the same as the actuarial assumptions in Note 24 (f), except for the discount rate which is assumed to be 8.5% (before tax) for the purposes of determining accrued benefits.

At the dates of the most recent actuarial review of the position of the fund determined under AAS25 and used as the basis for determining fund contributions, the Australian fund had a surplus of $28m (2009: $15m).

Funding methods and current recommendations – New Zealand

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

At the dates of the most recent actuarial review of the position of the fund for determined under Professional Standard Number 2 and used for determining fund contributions, the New Zealand fund had a deficit of $5m (2009: $6m deficit). AMPGH group has adopted the recommendation of the appointed actuary to make additional contributions of $2m per year until the financial position of the Plan is sufficiently improved.

(h) Allocation of assets

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

	Australia(1)		New Zealand(1)	
	2010	**2009**	**2010**	**2009**
Equity	61%	57%	63%	66%
Property	10%	18%	12%	13%
Fixed interest	22%	12%	20%	18%
Cash	5%	3%	5%	3%
Alternative growth assets	2%	10%	0%	0%

Footnote:

(1) The investment assets of the plans may at times include either direct or indirect investments in AMP Limited shares. These investments are part of normal investment mandates within the plans and are not significant in relation to total plan assets. The plans do not hold any other assets which are occupied or used by AMP group.

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25. SHARE BASED PAYMENTS

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

AMPGH group participates in a number of employee share-based plans operating in the AMP group. AMP group has a number of employee share-based payment plans. Share-based payments place employees in the position of the shareholder, and in doing so, reward employees for the generation of value to shareholders. Information on plans which AMP currently offers is provided below.

Additionally, details have been provided regarding the Employee and Executive Option Plans. These plans are no longer offered to employees, but are included below as awards made in 2000 have not yet expired. The option plans were discontinued to simplify the range of long-term incentive plans offered to employees.

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

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Plans currently offered		
Performance rights(1)	10,415	7,436
Restricted shares(1)	8,543	4,924
Employee share acquisition plan - matching shares	103	1,710
Total share based payments expense	**19,061**	**14,070**

Footnote

(1) During 2010, both the 2009 and 2010 long-term incentive awards were granted. No performance rights were granted in the comparative period (2009) due to the pending changes to taxation rules in that year.

(b) Performance rights

Plan description

Certain senior executives are required to take their long-term incentives (LTI) awards in the form of performance rights. This is to ensure those executives who are most directly able to influence company performance are appropriately aligned with the interests of shareholders. All other LTI participants are provided with a degree of choice over whether their LTI grant is composed of performance rights, restricted shares or a combination of the two.

A performance right is a right to acquire one fully paid ordinary share in AMP Limited after a three-year performance period, provided a specific performance hurdle is met. Prior to exercise, performance rights holders do not receive dividends or have other shareholder benefits (including any voting rights).

AMP group offers share bonus rights to employees in overseas domiciles where it is not possible or tax-efficient to grant performance rights. The terms and conditions of the share bonus rights are identical to the terms and conditions of the performance rights, except settlement is in cash rather than equity instruments.

The performance hurdle

The number of performance rights that vest is determined by a vesting schedule based on the performance of AMP group relative to a comparator group of listed Australian companies over a three-year performance period.

The performance measure is AMP's Total Shareholder Return (TSR) relative to the top 50 industrials companies in the S&P/ASX 100 Index as at the start of the performance period. In order for any awards to vest, AMP's TSR must be at or above the median of the comparator group; for this level of performance 50% of the awards vest. The proportion of awards vesting increases on a straight-line basis until performance at the 75th percentile of the comparator group, at which point the awards vest in full. The performance hurdle and vesting schedule were chosen because they require participants to outperform AMP group's key competitors for shareholder funds before the awards generate any value.

At the end of the performance period, an independent external consultant provides the PRC with AMP's TSR ranking against the comparator group. The People and Remuneration Committee (PRC) then determines the number of performance rights that vest, if any, by applying this data to the vesting schedule. If the performance hurdle is not achieved the performance rights lapse immediately without opportunity to re-test performance at a later stage.

Exercising performance rights

If the awards vest, they are automatically exercised on behalf of the participant (i.e. converted to shares) at a nominal cost to the participant of $1 for all performance rights exercised at the one time. Upon exercise participants become entitled to shareholder benefits, including dividends and voting rights. In the event that performance rights are not automatically exercised on the participants' behalf, the participant has two years from the end of the performance period to exercise vested awards. When performance rights are exercised, the AMP Limited shares needed to satisfy the awards are bought on market through an independent third party, so that there is no dilutionary effect on the value of existing AMP Limited shares.

Treatment of performance rights on ceasing employment

Unvested performance rights will lapse when an executive resigns from AMP group. All performance rights, whether vested or unvested, will also lapse on termination due to misconduct or inadequate performance. In some other cases, such as retirement and redundancy, performance rights continue to be held subject to the same performance hurdle and performance period.

Notes to the financial statements

for the year ended 31 December 2010

25. SHARE-BASED PAYMENTS (CONTINUED)

Plan valuation

The fair value of performance rights has been calculated as at the grant date, by external consultants using a simulation technique known as a Monte Carlo simulation. Fair value has been discounted for the probability of not meeting the TSR performance hurdles.

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

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

During 2010, both the 2009 and 2010 long-term incentive awards were granted. No performance rights were granted in the comparative period (2009) due to the pending changes to taxation rules in that year. The following table shows the factors which were considered in determining the independent fair value of the performance rights granted during 2010:

Grant Date	Share Price	Contractual Life	Dividend Yield	Volatility	Risk-free rate	Performance hurdle discount	Fair value
08/09/2010	$ 5.04	2.9 years	5.2%	39%	4.5%	50%	$2.50
12/03/2010	$ 6.13	2.4 years	5.3%	39%	4.9%	42%	$3.53
20/03/2009	$ 4.37	4.9 years	6.2%	36%	2.9%	54%	$2.03

The following table shows the movements during the period of all performance rights:

Grant date	Exercise period	Exercise price	Balance at 1 Jan 2010	Exercised during the year (1)	Granted during the year	Lapsed during the year	Balance at 31 Dec 2010 (2)
01/09/2005	31/07/2008 - 31/07/2010	Nil	68,694	56,442	-	12,252	-
05/09/2007	01/08/2010 - 31/07/2012	Nil	2,442,507	-	-	2,442,507	-
21/09/2007	01/08/2010 - 31/07/2012	Nil	68,448	-	-	68,448	-
06/06/2008	01/01/2011 - 31/12/2012	Nil	102,914	-	-	-	102,914
19/09/2008	01/08/2011 - 31/07/2013	Nil	4,342,537	-	-	212,578	4,129,959
20/03/2009	01/08/2011 - 31/07/2013	Nil	18,116	-	-	-	18,116
12/03/2010	01/08/2012 - 31/07/2014	Nil	-		4,983,363	31,483	4,951,880
08/09/2010	01/08/2013 - 31/08/2015	Nil	-		4,148,304	-	4,148,304
Total			**7,043,216**	**56,442**	**9,131,667**	**2,767,268**	**13,351,173**

Footnote:

(1) The weighted average share price at the time of exercise of these performance rights was $5.89.

(2) The weighted average remaining contractual life of performance rights outstanding at the end of the period is 2.2 years.

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

Notes to the financial statements

for the year ended 31 December 2010

25. SHARE-BASED PAYMENTS (CONTINUED)

(c) Restricted shares

Plan description

A 'restricted share' is an ordinary AMP Limited share that has a holding lock in place until the three-year vesting period ends. During this time, the holder is eligible for dividends, but is unable to sell, transfer or hedge their award.

The purpose of the restricted shares is to recognise and retain high performing employees who contribute significantly to AMP group's overall business success.

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

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

Plan valuation

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

During 2010, both the 2009 and 2010 long-term incentive awards were granted. No restricted shares were granted in the comparative period (2009) due to the pending changes to taxation rules in that year. The following table shows the number of restricted shares (including any share bonus rights in lieu of restricted shares) that were granted during 2010 and the fair value of restricted shares as at the grant date.

Grant date	Number granted	Weighted average fair value
8/09/2010	1,379,931	4.97
28/05/2010	160,264	5.65
28/05/2010	35,211	5.13
12/03/2010	1,876,018	6.04
20/03/2009	9,524	4.37

AMP offers share bonus rights to employees in overseas domiciles where it was not possible or tax-efficient to grant restricted shares. The terms and conditions of the share bonus rights are identical to the terms and conditions of the restricted shares except the share bonus rights are not entitled to dividends and settlement is in cash rather than equity instruments.

(d) Employee Share Acquisition Plan

Plan description

From time to time, AMP group has provided employees and executives with the opportunity to become shareholders in AMP Limited through the Employee Share Acquisition Plan (ESAP), typically by way of salary sacrificing their fixed remuneration or STI to acquire shares. Depending on the terms of the particular award, participants may be entitled to receive matching shares for shares acquired under the ESAP (e.g. the 2009 awards provided one free share for every 10 shares acquired via salary sacrifice). Additionally, AMP group can provide employees with free shares under the ESAP. Where the awards are acquired at no cost to the participant, service-based conditions must be met for the participant to receive their full entitlement. There are no performance hurdles applying to the plan as it is primarily designed to encourage employee share ownership.

The plan was suspended mid-way through 2009 in Australia due to the changes to the taxation treatment of employee share plan awards. The plan continues to operate in New Zealand.

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

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

Plan valuation

All awards made during 2010 and the 2009 comparative year were offers to salary sacrifice to acquire shares with matching shares awarded on a 1-for-10 basis after a three-year vesting period. Each matching share has been valued by external consultants as the face value of an AMP Limited ordinary share at grant date less the present value of the expected dividends (to which the participant is not entitled until the end of the vesting period). The number of matching shares expected to be granted is estimated based on the average number of shares held in the ESAP by each employee at the beginning of each year. In determining the share-based payments expense for the period, the number of matching shares expected to be granted has been adjusted to reflect the number of employees expected to remain with AMP group until the end of the three-year vesting period.

Notes to the financial statements

for the year ended 31 December 2010

25. SHARE-BASED PAYMENTS (CONTINUED)

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

Grant date	Estimated number of matching shares to be granted	Weighted average fair value
2010 – various	762	$4.90
2009 – various	57,209	$3.99

(e) Employee and Executive Option Plan

Plan description

In the past, employees and executives were granted options to purchase AMP shares, subject to various performance hurdles. However, options have not been offered since 2002. The last performance period for options under this plan was completed in 2007. The table below shows options that vested up to 2007 in the plan and remain unexercised.

Grant date	Exercise period	Exercise price(1)	Balance at 1 Jan 2010	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2010
Executive Option Plan							
19/02/2000	19/02/2003-18/02/2010	$9.91	30,000	-	-	30,000	-
Employee Option Plan							
01/01/2000	01/01/2003-31/12/2009	$11.90	204,432	-	-	204,432	-
30/06/2000	30/06/2003-29/06/2010	$11.57	967,560	-	-	967,560	-
28/10/2000	28/10/2003-27/10/2010	$12.29	11,406	-	-	11,406	-
09/12/2000	09/12/2003-08/12/2010	$13.65	10,000	-	-	10,000	-
21/07/2001	21/07/2004-20/07/2011	$14.75	486,880	-	-	55,425	431,455
15/12/2001	15/12/2004-14/12/2011	$12.89	1,294	-	-	-	1,294
Total			1,711,572	-	-	1,278,823	432,749

Footnote:

(1) The exercise prices shown in this column became effective on 17 May 2007. To compensate for the impact of the 2007 capital return of 40 cent per share the exercise prices of outstanding options were reduced by 40 cents per share in accordance with ASX listing rules.

(2) The weighted average remaining contractual life of options outstanding at the end of the period is 1.3 years.

The current exercise prices of outstanding options are generally above the current market price of AMP shares.

Since the end of the financial year and up to 28 February 2011, 14,000 employee options have lapsed and no options have been exercised. The total number of options on issue at 28 February 2011 is 418,749.

2006 and 2007 capital return

In accordance with the ASX Listing Rules and the rules of the plan, the exercise prices of outstanding options were reduced by 40 cents per option following the 2006 and 2007 capital returns of 40 cents per share to shareholders. The terms and conditions of the options were not altered as a result of the capital returns as the reduction in exercise prices occurred under their original terms.

Notes to the financial statements

for the year ended 31 December 2010

26. GROUP CONTROLLED ENTITY HOLDINGS

Details of significant investments in controlled entities are as follows:

NAME OF ENTITY	COUNTRY OF INCORPORATION	Share type	Footnote	% Holdings 2010	% Holdings 2009
140 St Georges Terrace Pty Limited	Australia	Ord		100	100
255 George Street Investment A Pty Ltd	Australia	Ord		100	100
255 George Street Investment B Pty Ltd	Australia	Ord		100	100
35 Ocean Keys Pty Limited	Australia	Ord		100	100
Abbey Capital Real Estate Pty Limited	Australia	Ord		100	100
ACPP Industrial Pty Ltd	Australia	Ord		100	100
ACPP Office Pty Ltd	Australia	Ord		100	100
ACPP Retail Pty Ltd	Australia	Ord		100	100
Aged Care Investment Services No. 1 Pty Limited (formerly PHF No. 1 Management Pty Limited)	Australia	Ord		100	100
Aged Care Investment Services No. 2 Pty Limited (formerly PHF No. 1 Pty Limited)	Australia	Ord		100	100
Allmarg Corporation Limited	NZ	Ord, Pref		100	100
AMP (UK) Finance Services Plc	UK	Ord		100	100
AMP ASAL Pty Ltd	Australia	Ord		100	100
AMP Australian Financial Services Holdings Limited	Australia	Ord		100	100
AMP Capital Advisors India Private Limited	India	Ord		100	100
AMP Capital AB Holdings Pty Limited	Australia	Ord		100	100
AMP Capital Bayfair Pty Limited	Australia	Ord		100	100
AMP Capital Finance Limited	Australia	Ord		100	100
AMP Capital Finance Mauritius Limited	Australia	Ord	(2)	-	63
AMP Capital Global Property Securities Pty Limited	Australia	Ord		100	100
AMP Capital Holdings Limited	Australia	Ord		100	100
AMP Capital (International Finance No. 1) SA	Luxembourg	Ord, MRPS		100	100
AMP Capital (International Finance No. 2) SA	Luxembourg	Ord, MRPS		100	100
AMP Capital Investments Limited	NZ	Ord A & B, Pref	(2)	-	100
AMP Capital Investments No. 2 Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No. 8 Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No 11 Limited	NZ	Ord A & B		100	100
AMP Capital Investments No. 14 Limited	NZ	Ord A & B		100	100
AMP Capital Investors Advisory (Beijing) Limited	Republic of China	Ord		100	100
AMP Capital Investors (Hong Kong) Limited	Hong Kong	Ord	(1)	100	-
AMP Capital Investors (Luxembourg) S.à r.l. [formerly AMP Capital Redding Investors Luxembourg Limited]	Luxembourg	Ord		100	100
AMP Capital Investors (Luxembourg No. 3) S.à r.l.	Luxembourg	Ord		100	100
AMP Capital Investors (Luxembourg No. 4) S.à r.l.	Luxembourg	Ord		100	100
AMP Capital Investors (Luxembourg No. 5) S.à r.l.	Luxembourg	Ord	(1)	100	-
AMP Capital Investors (Luxembourg No. 6) S.à r.l.	Luxembourg	Ord	(1)	100	-
AMP Capital Investors (New Zealand) Limited	NZ	Ord		100	100
AMP Capital Investors (Property Funds Management Jersey) Limited	Jersey	Ord		100	100
AMP Capital Investors (Singapore) Pte Ltd	Singapore	Ord		100	100
AMP Capital Investors (Singapore) REIT Management Limited	Singapore	Ord		100	100

Notes to the financial statements
for the year ended 31 December 2010

26. GROUP CONTROLLED ENTITY HOLDINGS (CONTINUED)

NAME OF ENTITY	COUNTRY OF INCORPORATION	Share type	Footnote	% Holdings 2010	% Holdings 2009
AMP Capital Investors (UK) Limited	UK	Ord		100	100
AMP Capital Investors (US) Limited	USA	Ord	(1)	100	-
AMP Capital Investors International Holdings Limited	Australia	Ord		100	100
AMP Capital Investors Property Japan KK	Japan	Ord	(1)	100	-
AMP Capital Investors Japan KK	Japan	Ord		100	100
AMP Capital Investors KK [formerly Gemini Advisors Securities Investment Company KK]	Japan	Ord		100	100
AMP Capital Investors Limited	Australia	Ord		100	100
AMP Capital Investors Real Estate Pty Limited (formerly AMP Real Estate Pty Ltd)	Australia	Ord		100	100
AMP Capital Lifestyle Limited	Australia	Ord		100	100
AMP Capital Office and Industrial Pty Limited	Australia	Ord		100	100
AMP Capital Office and Industrial (Singapore) Pte Limited	Singapore	Ord		100	100
AMP Capital Offshore Investments Limited	NZ	Ord	(2)	-	100
AMP Capital Palms Pty Limited	Australia	Ord		100	100
AMP Capital Property Nominees Ltd	Australia	Ord		100	100
AMP Capital Shopping Centres Pty Limited	Australia	Ord		100	100
AMP CMBS No. 1 Pty Limited	Australia	Ord		100	100
AMP CMBS No. 2 Pty Limited	Australia	Ord		100	100
AMP Crossroads Pty Limited	Australia	Ord		100	100
AMP Custodial Investments No. 1 Limited	NZ	Ord A & B, Pref	(2)	-	100
AMP Custodian Services (NZ) Limited	NZ	Ord		100	100
AMP Davidson Road Pty Limited	Australia	Ord		100	100
AMP Finance Limited	Australia	Ord		100	100
AMP Finance Services Limited	Australia	Ord		100	100
AMP Financial Planning Pty Limited	Australia	Ord		100	100
AMP Financial Services Holdings Limited	Australia	Ord		100	100
AMP GBS Limited	Australia	Fixed		100	100
AMP GDPF Pty Limited	Australia	Ord		100	100
AMP GI Distribution Pty Limited	Australia	Ord		100	100
AMP Global Property Investments Pty Ltd	Australia	Ord		100	100
AMP Group Finance Services Limited	Australia	Ord		100	100
AMP Group Services Limited	Australia	Ord		100	100
AMP Holdings Limited	Australia	Ord A, Ord B, Red Pref B Class		100	100
AMP Insurance Investment Holdings Pty Limited	Australia	Ord		100	100
AMP Investment Management (NZ) Limited	NZ	Ord		100	100
AMP Investment Services No. 2 Pty Limited	Australia	Ord		100	100
AMP Investment Services Pty Limited	Australia	Ord		100	100
AMP Investments Chile Limitada	Chile	Ord		100	100
AMP Life Limited	Australia	Ord		100	100
AMP Life (NZ) Investment Holdings Limited	NZ	Ord		100	100
AMP Life (NZ) Investment Limited	NZ	Ord		100	100
AMP Macquarie Holding Pty Limited	Australia	Ord		100	100
AMP Macquarie Pty Limited	Australia	Ord		100	100
AMP NZ Carpark Limited	NZ	Ord		100	100
AMP Pacific Fair Pty Limited	Australia	Ord		100	100

Notes to the financial statements
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26. GROUP CONTROLLED ENTITY HOLDINGS (CONTINUED)

NAME OF ENTITY	COUNTRY OF INCORPORATION	Share type	Footnote	% Holdings 2010	2009
AMP Personal Investment Services Limited	Australia	Ord		100	100
AMP Planner Register Company Pty Limited	Australia	Ord		100	100
AMP Private Capital Funds Holdings Limited	NZ	Ord, Pref		100	100
AMP Private Capital New Zealand Limited	NZ	Ord		100	100
AMP Private Capital No. 2 Pty Limited	Australia	Ord		100	100
AMP Private Capital Pty Limited	Australia	Ord		100	100
AMP Private Investments Pty Limited	Australia	Ord		100	100
AMP Private Wealth Management Pty Limited	Australia	Ord		100	100
AMP Property Investments (Qld) Pty Ltd	Australia	Ord		100	100
AMP Remuneration Reward Plans Nominees Pty. Limited	Australia	Ord		100	100
AMP Riverside Plaza Pty Limited	Australia	Ord		100	100
AMP Royal Randwick Pty Limited	Australia	Ord		100	100
AMP Services (NZ) Limited	NZ	Ord		100	100
AMP Services Holdings Limited	Australia	Ord		100	100
AMP Services Limited	Australia	Ord		100	100
AMP SMSF Holding Co Limited	Australia	Ord	(1)	100	-
AMP Superannuation (NZ) Limited	NZ	Ord		100	100
AMP Superannuation Limited	Australia	Ord		100	100
AMP Warringah Mall Pty Ltd	Australia	Ord		100	100
AMP/ERGO Mortgage and Savings Limited	NZ	Ord		100	100
Arrive Wealth Management Limited	Australia	Ord		100	100
Arrow Systems Pty Limited	Australia	Ord		100	100
Arthur Ellis & Co. Limited	NZ	Ord		100	100
Arthur Ellis Limited	NZ	Ord	(2)	-	100
Auburn Mega Mall Pty Limited	Australia	Ord		100	100
Australian Mutual Provident Society Pty Limited	Australia	Ord		100	100
Australian Securities Administration Limited	Australia	Ord		100	100
AWOF New Zealand Office Pty Limited	Australia	Ord		100	100
CBD Financial Planning Pty Limited	Australia	Ord	(1)	100	-
Collins Place No. 2 Pty Ltd	Australia	Ord		100	100
Collins Place Pty Limited	Australia	Ord		100	100
Donaghys Australia Pty Limited	NZ	Ord		50	50
Donaghys Industries Limited	NZ	Ord		50	50
Donaghys International Limited	NZ	Ord		50	50
Donaghys Limited	NZ	Ord, Pref		50	50
Donaghys Pty Limited	NZ	Ord		50	50
ERGO Personal Financial Services Limited	NZ	Ord	(2)	-	100
Focus Property Services Pty Limited	Australia	Ord	(3)	98	98
Glendenning Pty Limited	Australia	Ord		100	100
Hillross Alliances Limited	Australia	Ord		100	100
Hillross Financial Services Limited	Australia	Ord		100	100
Hillross Innisfail Pty Limited	Australia	Ord	(1)	100	-
Hillross Wealth Management Centre Canberra Pty Limited	Australia	Ord		50	50
Hillross Wealth Management Centre Melbourne Pty Limited	Australia	Ord		100	100
Honeysuckle 231 Pty Limited	Australia	Ord	(3)	60	60
Hospital Car Parking Limited	NZ	Ord		100	100
Hospital Car Parking Holdings Limited	NZ	Ord		100	100
INSSA Pty Limited	Australia	Ord		100	100
Inversiones Mineras Los Andes Limitada	Chile	Ord		100	100
Jeminex Ltd	Australia	Ord		51	51

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26. GROUP CONTROLLED ENTITY HOLDINGS (CONTINUED)

NAME OF ENTITY	COUNTRY OF INCORPORATION	Share type	Footnote	% Holdings 2010	2009
Kent Street Pty Limited	Australia	Ord		100	100
Kiwi Kat Limited	NZ	Ord	(1)	70	-
Knox City Shopping Centre Investments (No. 2) Pty Limited	Australia	Ord		100	100
Kramar Holdings Pty Limited	Australia	Ord	(3)	78	78
Marrickville Metro Shopping Centre Pty Limited	Australia	Ord		100	100
Mowla Pty. Ltd.	Australia	Ord		100	100
Omega (Australia) Pty Limited	Australia	Ord		100	100
PHFT Finance Pty Limited	Australia	Ord		100	100
PremierOne Mortgage Advice Pty Limited	Australia	Ord		100	100
Principal Healthcare Finance No. 2 Pty Limited	Australia	Ord		100	100
Principal Healthcare Finance Pty Limited	Australia	Ord		100	100
Principal Healthcare Holdings Pty Limited	Australia	Ord		100	100
Priority One Financial Services Limited	Australia	Ord		100	100
Quay Mining (No. 2) Limited	Bermuda	Ord, Red Pref		100	100
Quay Mining Pty Limited	Australia	Ord		100	100
Roost 2007 Limited	NZ	Ord		100	100
Scrabster Bay Pty Limited	Australia	Ord		100	100
Shanghai AMP Property Co Ltd	Republic of China	Ord	(2), (3)	-	81
SPP No. 1 (Alexandra Canal) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Cowes) Pty Limited	Australia	Ord		86	86
SPP No. 1 (H) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mona Vale) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mornington) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Newcastle) Pty Limited	Australia	Ord		86	86
SPP No. 1 (North Melbourne) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Pakenham) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Point Cook) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Q Stores) pity Limited	Australia	Ord		86	86
SPP No. 1 (Rosebery) Pty Limited	Australia	Ord		86	86
SPP No. 1 Holdings Pty Limited	Australia	Ord		86	86
SPP No. I (Hawthorn) Pty Limited	Australia	Ord		86	86
SPP No. I (Mt. Waverley Financing) Pty Limited	Australia	Ord		86	86
SPP No. I (Mt. Waverley) Pty Limited	Australia	Ord		86	86
SPP No. I (Port Melbourne) Pty Limited	Australia	Ord		86	86
SPP No. 3A Investments Pty Limited	Australia	Ord		100	100
Sugarland Shopping Centre Pty Limited	Australia	Ord		100	100
Sunshine West Development Pty Limited	Australia	Ord		75	75
Sunshine West Income Pty Limited	Australia	Ord		100	100
The India Infrastructure Fund LLC	Mauritius	Red Pref		100	100
TOA Pty Ltd	Australia	Ord		100	100
United Equipment Holdings Pty Limited	Australia	Ord	(3)	53	60
Waterfront Place (No. 2) Pty. Ltd.	Australia	Ord		100	100
Waterfront Place (No. 3) Pty. Ltd.	Australia	Ord		100	100

Footnote:

(1) Controlling interest acquired in 2010.

(2) Controlling interest disposed in 2010.

(3) Not audited by Ernst & Young.

Notes to the financial statements

for the year ended 31 December 2010

26. GROUP CONTROLLED ENTITY HOLDINGS (CONTINUED)

Details of significant investments in controlled trusts are as follows:

TRUSTS AND OTHER ENTITIES	COUNTRY OF		% Holdings	
NAME OF ENTITY	**REGISTRATION**	**Footnote**	**2010**	**2009**
140 St Georges Terrace Trust	Australia		100	100
35 Ocean Keys Trust	Australia	(2)	-	75
ACPP Holding Trust	Australia		100	100
ACPP Industrial Trust	Australia		100	100
ACPP Office Trust	Australia		100	100
ACPP Retail Trust	Australia		100	100
Active Quant Share Fund	Australia		73	71
AHGI Martineau Fund	Australia		100	100
AHGI Martineau Galleries Fund	Australia		100	100
AMP Capital Asia ex-Japan Fund	Australia		92	90
AMP Capital Asian Equity Growth Fund	Australia		94	81
AMP Capital Business Space REIT	Singapore		100	100
AMP Capital Commodities Fund	Australia	(2)	-	100
AMP Capital Core Plus Strategies Fund	Australia		-	78
AMP Capital Corporate Bond Fund	Australia		93	81
AMP Capital Credit Strategies	Australia		90	94
AMP Capital Global Infrastructure Securities Fund (Hedged)	Australia	(1)	100	-
AMP Capital Global Tactical Asset Allocation Fund	Australia		98	97
AMP Capital Investors Australian Equity Long Short Fund	Australia		100	100
AMP Capital Investors China Strategic Growth Fund	Australia		100	100
AMP Capital Investors Infrastructure Fund 1	Australia		100	100
AMP Capital Sustainable External Alpha Fund	Australia		100	100
AMP Capital Lifestyle Trust	Australia		100	100
AMP Capital Macro Strategies Fund	Australia		78	84
AMP Capital Mature Life Fund A	Australia		100	100
AMP Capital Mature Life Fund B	Australia		100	100
AMP Capital New Balanced Conservative Fund	Australia	(2)	-	100
AMP Capital Palms Trust	Australia	(2)	-	75
AMP Liverpool Trust X	Australia	(2)	-	75
AMP Macquarie Holdings Trust	Australia		90	90
AMP Macquarie Trust	Australia		90	90
AMP Pacific Fair Trust	Australia		90	90
AMP Private Capital Trust No.4	Australia		100	100
AMP Private Capital Trust No.9	Australia		100	100
AMP Shopping Centre Fund	Australia	(2)	-	75
AMP UK Shopping Centre Fund	Australia		100	100
AMP US Property Trust	Australia	(2)	-	100
AMP Wholesale Office Fund	Australia	(3)	46	65
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund (previously AMP Wholesale Shopping Centre Trust No 2)	Australia		90	90
Aggressive Enhanced Index Fund	Australia	(1)	100	-
Asian Giants Infrastructure Fund	China		-	63
Australian Pacific Airports Fund	Australia		66	66
AWOF New Zealand Office Trust	NZ	(3)	46	65
Bayfair Trust (NZ)	NZ	(2)	-	75
Balanced Enhanced Index Fund	Australia		99	98
Bourke Place Trust	Australia		57	57
Casey Central Trust	Australia	(2)	-	75
Cautious Enhanced Index Fund	Australia	(1)	100	-
Conservative Enhanced Index Fund	Australia		96	86
Crossroads Trust	Australia		100	100
Davidson Road Trust	Australia		100	100
EFM Infrastructure Fund 1	Australia		97	97

Notes to the financial statements

for the year ended 31 December 2010

26. GROUP CONTROLLED ENTITY HOLDINGS (CONTINUED)

TRUSTS AND OTHER ENTITIES NAME OF ENTITY	COUNTRY OF REGISTRATION	Footnote	% Holdings 2010	2009
EFM Australian Share Fund 1	Australia		97	97
EFM Australian Share Fund 2	Australia		99	99
EFM Australian Share Fund 3	Australia		98	98
EFM Australian Share Fund 4	Australia		95	96
EFM Australian Share Fund 5	Australia	(2)	-	96
EFM Australian Share Fund 6	Australia		99	99
EFM Australian Share Fund 7	Australia		98	98
EFM Diversified Fund 6	Australia	(2)	-	91
EFM Fixed Interest Fund 2	Australia		97	97
EFM Fixed Interest Fund 3	Australia		97	98
EFM Fixed Interest Fund 4	Australia		94	94
EFM International Share Fund 1	Australia	(2)	-	98
EFM International Share Fund 3	Australia		97	97
EFM International Share Fund 4	Australia	(2)	-	99
EFM International Share Fund 5	Australia		97	96
EFM International Share Fund 6	Australia	(2)	-	99
EFM International Share Fund 7	Australia		92	96
EFM Listed Property Fund 1	Australia		96	96
Enhanced Index International Share Fund	Australia		82	86
Enhanced Index Share Fund	Australia		84	86
FD Australian Share Fund 1	Australia		97	97
FD Australian Share Fund 2	Australia	(2)	-	94
FD Australian Share Fund 3	Australia		93	93
FD Global Property Securities Fund 1	Australia		94	94
FD Infrastructure Trust	Australia		100	100
FD International Bond Fund 3	Australia		96	89
FD International Share Fund 1	Australia		95	92
FD International Share Fund 2	Australia	(2)	-	84
FD International Share Fund 3	Australia		99	99
FD International Share Fund 4	Australia		96	97
Floating Rate Income Fund	Australia		98	84
Future Directions Asia ex-Japan Fund	Australia		82	73
Future Directions Australian Bond Fund	Australia		98	94
Future Directions Australian Share Fund	Australia		94	90
Future Directions Australian Small Companies Fund	Australia		94	87
Future Directions Balanced Fund	Australia		98	97
Future Directions Conservative Fund	Australia		94	93
Future Directions Core International Share Fund 2	Australia		72	65
Future Directions Credit Opportunities Fund	Australia		100	100
Future Directions Enhanced index Australian Share Fund	Australia		100	100
Future Directions Enhanced Index Global Property Securities Fund	Australia		100	100
Future Directions Enhanced Index International Bond Fund	Australia		82	91
Future Directions Enhanced Index International Share Fund	Australia		96	72
Future Directions Geared Australian Share Fund	Australia		91	91
Future Directions Growth Fund	Australia		95	93
Future Directions Hedged Core International Share Fund	Australia		76	59
Future Directions High Growth Fund	Australia		94	93
Future Directions Inflation Linked Bond Fund	Australia		100	100
Future Directions Infrastructure Fund	Australia		100	96
Future Directions International Bond Fund	Australia		96	94
Future Directions International Share Fund	Australia		92	70
Future Directions Moderate Conservative Fund	Australia		93	93
Future Directions Opportunistic Fund	Australia		100	96

Notes to the financial statements
for the year ended 31 December 2010

26. GROUP CONTROLLED ENTITY HOLDINGS (CONTINUED)

TRUSTS AND OTHER ENTITIES	COUNTRY OF		% Holdings	
NAME OF ENTITY	**REGISTRATION**	**Footnote**	**2010**	**2009**
Future Directions Private Equity Fund 1a	Australia		100	100
Future Directions Private Equity Fund 1b	Australia	(1)	100	-
Future Directions Private Equity Fund 2a	Australia	(1)	100	-
Future Directions Private Equity Fund 2b	Australia	(1)	100	-
Future Directions Private Equity Fund 3a	Australia	(1)	100	-
Future Directions Private Equity Fund 3b	Australia	(1)	100	-
Future Directions Property (Feeder) Fund	Australia		98	95
Future Directions Total Return Fund	Australia		99	95
Goldman Sachs Specialised Investments - S&P GSCI Light Energy E92 Profile	Australia	(1)	100	-
Glendenning Trust	Australia		100	100
Global Credit Strategies Fund	Australia		87	97
Global Listed Infrastructure Fund Pool	Australia	(1)	100	-
Global Growth Opportunities Fund	Australia		96	94
International Bond Fund	Australia		93	94
Kent Street Investment Trust	Australia		100	100
Kent Street Unit Trust	Australia		100	100
Listed Property Trusts Fund	Australia	(2)	-	63
Loftus Street Trust	Australia	(3)	46	65
New Balanced Fund	Australia		100	100
Macquarie Balanced Growth Fund	Australia		68	68
Managed Treasury Fund	Australia		77	77
Moderately Aggressive Enhanced Index Fund	Australia	(1)	100	-
Moderately Conservative Index Fund	Australia	(1)	100	-
Monash House Trust	Australia		100	100
Ocean Keys Holding Trust	Australia	(2)	-	75
Ocean Keys Trust	Australia	(2)	-	75
Principal Healthcare Holding Trust	Australia		100	100
Private Equity Fund IIIA	Australia		94	94
Private Equity Fund IIIB	Australia		94	94
Responsible Investment Leaders Conservative Fund	Australia		92	91
Responsible Investment Leaders Growth Fund	Australia		96	96
Responsible Investment Leaders High Growth Fund	Australia		100	100
Riverside Plaza Trust	Australia		100	100
Royal Randwick Trust	Australia	(2)	-	75
Select Property Portfolio No. 1	Australia		86	86
Student Housing Accommodation Growth Trust 2	Australia	(1)	100	-
Sydney Cove Trust	Australia		100	100
The Pinnacle Fund	Australia		99	99
Warringah Mall Trust	Australia		67	92
Wholesale Australian Bond Fund	Australia		92	92

Footnote:

(1) Controlling interest acquired in 2010.

(2) Controlling interest disposed in 2010.

(3) Less than 50% holding, but consolidated because AMPGH group retains control over the operating functions.

Notes to the financial statements

for the year ended 31 December 2010

27. ASSOCIATES

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

	Principal activities	2010 $m	2009 $m	Ownership 2010 %	Ownership 2009 %	Country of incorporation
AIMS AMP Capital Industrial REIT [3][4]	Industrial property trust	61	51	16	16	Singapore
AIMS AMP Capital Industrial REIT Management Ltd	Property management	4	4	50	50	Singapore
MacarthurCook Investment Managers (Asia) Limited	Investment management	4	4	50	50	Singapore
AMPCI Macquarie Infrastructure Fund Management No 1 (Stapled), and AMPCI Macquarie Infrastructure Fund Management No 2 (Stapled)	Investment management	3	3	50	50	Australia
AMP Capital Brookfields Limited	Investment management	8	5	50	50	Australia
Super CEO Pty Limited[1]	Investment management	8	-	49	-	Australia
Summerset Group Holdings Limited[2]	Retirement property company	-	48	-	50	New Zealand
Other		1	1			
Total investments in associates accounted for using the equity method		**89**	**116**			

(1) Became an associate entity during 2010.

(2) Ceased being an associate entity during 2010.

(3) The value of AMPGH group's investment in AIMS AMP Capital Industrial REIT based on published quoted prices as at 31 December 2010 is $53m (31 December 2009: $40m).

(4) The combination of the 16% investment in MI-REIT and the joint control of the manager companies is considered to represent significant influence by AMPGH group.

(5) The reporting date for all significant associated entities is 31 December.

Aggregated financial information extracted from the financial statements of associates accounted for using the equity method	**Dec 2010 $m**	**Dec 2009 $m**
Assets	595	1,137
Liabilities	187	477
Revenues	49	68
Expenses - including tax	34	56
Profit/(loss)	15	12
Share of contingent liabilities incurred in relation to associates accounted for using the equity method	nil	nil

Notes to the financial statements

for the year ended 31 December 2010

27. ASSOCIATES (CONTINUED)

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

	PRINCIPAL ACTIVITY [3]	Footnote	Ownership interest 31 Dec 2010 %	31 Dec 2009 %	Carrying amount 31 Dec 2010 $m	31 Dec 2009 $m
COMPANIES[2]						
NAME OF COMPANY						
Diversified Commercial Backed Mortgage Securities Pty Ltd	Investment in mortgage securities		43%	43%	97	115
Gove Aluminium Finance	Aluminium smelting		30%	30%	125	173
Others (each less than $20m)			Various		12	61
Total investments held by the life statutory funds in associated companies					**234**	**349**
UNIT TRUSTS[2]						
NAME OF TRUST						
AIF Strategic Equity	Investment trusts		32%	23%	126	88
AIF Equity Units	Investment trusts		46%	36%	101	91
AMP Capital China Growth Fund	Investment trusts		37%	34%	101	115
AMP Equity Trust	Investment trusts		41%	36%	230	253
AMP Property Portfolio	Investment trusts		38%	38%	261	281
AMP Shopping Centre Fund	Investment trusts	(4)	46%	-	725	-
AMP Small Companies Trust (Class C)	Investment trusts		46%	37%	118	98
AMP World Index Fund	Investment trusts		46%	31%	67	88
Darling Park Property Trust	Investment trusts		50%	50%	223	208
Global Property Securities Fund	Investment trusts		23%	37%	381	499
Infrastructure Equity Fund	Investment trusts		28%	29%	113	114
Marrickville Metro Trust	Investment trusts		50%	50%	78	74
Property Income Fund (previously Property Income Fund Class A)	Investment trusts		38%	27%	215	199
Responsible Investments Leader Balanced Fund	Investment trusts		28%	30%	236	234
Southland Trust	Investment trusts	(5)	-	50%	-	524
Strategic Infrastructure Trust Europe 1	Investment trusts		27%	37%	59	71
Strategic Infrastructure Trust Europe 2			27%	37%	58	71
Sustainable Futures Australia Share Fund	Investment trusts		45%	47%	589	665
Tea Tree Plaza Trust	Investment trusts	(5)	-	50%	-	246
Value Plus Australia Share Fund	Investment trusts		23%	25%	61	87
Others (each less than $50m)	Investment trusts		Various		284	282
Total investments held by the life statutory funds in associated trusts					4,026	4,288

Footnote:

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

(2) The reporting date for all significant associated entities is 31 December.

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

(4) Trust became an associated entity during 2010.

(5) Trust ceased being an associated entity during 2010.

Notes to the financial statements

for the year ended 31 December 2010

28. FORWARD INVESTMENTS, LEASING AND OTHER COMMITMENTS

	Consolidated	
	2010	2009
	$m	$m
Forward investments - callable at any time		
Uncalled capital on shares in relation to:[1]		
- associated entities	46	6
- other entities	17	73
Uncalled capital on units in relation to:[1]		
- associated unit trusts	17	20
- other unit trusts	3	32
Total forward investments	**83**	**131**
Operating lease commitments (non cancellable)		
Due within one year	45	44
Due within one year to five years	117	141
Due later than five years	21	30
Total operating lease commitments	**183**	**215**
Other commitments		
Due within one year	2	10
Due within one year to five years	1	-
Due later than five years	-	-
Total other commitments	**3**	**10**

Footnote:

(1) Uncalled capital represents a commitment to make further capital contributions for shares, units in trusts and certain private capital investments held within the life statutory funds.

On 29 November 2010, AMP Limited entered into contractual arrangements with AXA Asia Pacific Holdings Limited (AXA APH) and its ultimate parent, AXA SA, to acquire the Australian and New Zealand businesses of AXA APH, subject to certain conditions including the minority shareholders voting in favour of the proposal and receipt of necessary court and regulatory approvals. If each of the conditions are satisfied or waived, AMP Limited is committed to issue approximately 695 million new shares and pay up to $455 million in cash to acquire the Australian and New Zealand businesses of AXA APH.

Notes to the financial statements

for the year ended 31 December 2010

29. CONTINGENT LIABILITIES

The AMPGH group from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business.

The AMPGH group provides an unconditional and irrevocable guarantee over AMP Bank Limited. At reporting date the likelihood of any outflow in settlement of this obligation is remote.

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

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

Notes to the financial statements

for the year ended 31 December 2010

30. RELATED-PARTY DISCLOSURES

(a) Key management personnel details

The following individuals were the key management personnel for the current and prior reporting periods.

Paul Leaming (Chairman)
Simon Hoole (appointed 5 March 2010)
Brian Salter (appointed 3 December 2010)
Craig Dunn (resigned 8 March 2010)
Bryan Dean (resigned 7 December 2010)

(b) Remuneration of key management personnel

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

	Short term benefits $'000	Post employment benefits $'000	Share based payments $'000	Termination benefits $'000	Total $'000
2010	3,152	45	1,411	528	5,136
2009	5,843	88	2,335	-	8,266

(c) Transactions with key management personnel

During the year, key management personnel and their personally related entities have entered into transactions with the disclosing entity or its subsidiaries. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is available to other employees within the group. These transactions include:

- the purchase of AMP insurance and investment products
- financial investment services.

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

(d) Other related party transactions

AMPGH group controlled entities provide management services to associated unit trusts at normal commercial rates. Shares and other financial securities have been traded between AMPGH group controlled entities and respective trusts at market value. AMPGH group controlled entities provide management services to operating trusts with fees determined on a cost recovery basis. Interests held in associated entities (including percentage ownership) are set out in Note 27.

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

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

Notes to the financial statements
for the year ended 31 December 2010

31. AUDITORS' REMUNERATION

	Consolidated	
	2010	2009
	$'000	$'000
Amounts received or due and receivable by Auditors of AMP Group Holdings Limited for:		
Audit services		
Audit or review of financial statements	8,623	8,916
Other audit services		
- Includes regulatory and non-regulatory[1]	1,549	1,642
Total audit service fees	**10,172**	**10,558**
Non-audit services		
Assurance related services		
- Other assurances services [2]	457	363
Other non-audit services		
- Transaction support	312	14
- Tax and compliance advice	55	34
- Other services	365	623
Total non-audit services	**1,189**	**1,034**
Total amounts received or due and receivable by Auditors of AMP Group Holdings Limited[3] [4]	**11,361**	**11,592**

Footnote:

(1) Other audit work includes fees for reviews of the full year and half year Investor Reports, compliance audits and other audit procedures performed for vehicles controlled by the life statutory funds and those managed by AMP Capital Investors.

(2) Other assurance services include fees for fund prospectus reviews and other procedures performed for investment vehicles owned by the life statutory funds.

(3) Includes fees paid to Ernst & Young affiliates overseas.

(4) Periodically, the AMPGH group gains control of entities whose incumbent auditor is an audit firm other than Ernst & Young. In addition to the audit fees paid to Ernst & Young for auditing the AMPGH group, immaterial audit fees are also paid to these non-Ernst & Young audit firms in relation to the audit of those periodically controlled entities. The non-Ernst & Young audit firms are also independently contracted to provide other services to other controlled entities of the AMPGH group, unrelated to their audit work.

Notes to the financial statements

for the year ended 31 December 2010

32. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, the directors are not aware of any matter or circumstance that has arisen since the reporting date which has significantly affected or may significantly affect the operations of the consolidated entity, the results of its operations or its state of affairs, which is not already reflected in this report other than the following.

- on 17 January 2011, AXA Asia Pacific Holdings Limited (AXA APH) released an explanatory memorandum setting out information for AXA APH shareholders about a proposed merger of AXA APH's Australian and New Zealand businesses with AMP. The proposed transaction is a joint proposal with AXA SA under which AXA SA would acquire 100 per cent of AXA APH's Asian business.

  AXA APH's independent directors have unanimously recommended the proposal to minority shareholders in the absence of a superior proposal. AXA APH shareholders will have the opportunity to vote on the proposal on 2 March 2011. Assuming shareholders vote in favour of the proposal, and subject to court approval, it is expected that the implementation date for the merger will be 30 March 2011. In addition to receiving shareholder and court approvals, the merger also remains subject to various regulatory approvals, including from the Federal Treasurer.

Directors' declaration

for the year ended 31 December 2010

In accordance with a resolution of the directors of AMP Group Holdings Limited, we state for the purposes of Section 295(4) of the *Corporations Act 2001* that, in the opinion of the directors:

(a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) the financial statements and notes are in accordance with the Corporations Act 2001, including Section 296 (compliance with accounting standards) and Section 297 (true and fair view); and

(c) the financial statements and notes also comply with International Financial Reporting Standards as discussed in Note 1(a)

PAUL LEAMING
Director

SIMON HOOLE
Director

Sydney, 28 February 2011

Independent auditor's report to the members of AMP Group Holdings Limited

We have audited the accompanying financial report of AMP Group Holdings Limited, which comprises the statements of financial position as at 31 December 2010, the income statements, statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

Ernst & Young

Opinion

In our opinion:

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

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 31 December 2010 and of their performance for the year ended on that date; and

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

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

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
28 February 2011

Need help?

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AMP Group Holdings Limited is incorporated and domiciled in Australia.
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