

27 March 2013

Manager
ASX Market Announcements
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Manager
Market Information Services Section
New Zealand Stock Exchange
Level 24, NZX Centre, 11 Cable Street
Wellington, New Zealand

Announcement No: 09/2013
AMP Limited (ASX/NZX: AMP)
(also for release to AMP Group Finance Services Limited (ASX: AQNHA & NZX: AQN010))

Part 1: Annual Report 2012

Part 2: Shareholder Review 2012

Part 3: Notice of Annual General Meeting 2013 and Proxy Form

2012 annual report

2012

AMP 2012 annual report

All amounts are in Australian dollars, unless otherwise specified. The information in this report is current as at 1 March 2013.

AMP Limited ABN 49 079 354 519

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Chairman's foreword



'While 2013 will be a period of significant change in our industry, we are well positioned for the future.'

Peter Mason AM
Chairman

Welcome to AMP's 2012 annual report

AMP has grown in strength and competitiveness in 2012, as our vision for how a combined AMP and AXA could better meet the needs of our customers came to life. As a united company we are seeing the benefits of our strengthened product offering, our expanded financial planning network, increased funds under management and the cost efficiencies we have achieved.

Our superannuation, advice and investment businesses have performed particularly well. We made considerable progress against our strategy during 2012 and we are well positioned to take advantage of changes currently taking place in our industry.

While the global financial services industry is undergoing a period of intense regulatory change, the scale and breadth of our business is giving us the flexibility and efficiency to capitalise on these changes. In 2012 we have acted decisively to position the company for future growth, and in 2013 we will continue this approach, while maintaining a sharp cost and capital focus.

We are pleased to have seen the benefits of bringing the two businesses together emerging faster than expected and integration will continue to be an important focus of the business in 2013. Along with integration, responding to regulatory change will also be a high priority. We began work early on these regulatory changes, and implemented key elements two years ago, so that strategically we are well placed. However, the implementation timeframes for some of the changes are challenging.

Dividend and capital position

Your board has declared a final dividend of 12.5 cents a share, which will be 65 per cent franked and will be paid on 11 April 2013. This is a final payout ratio of 76 per cent of underlying profit, which is within AMP's target payout range of between 70 per cent and 80 per cent of underlying profits.

Given our strong capital position, the board has decided this is an appropriate time to remove the discount on the dividend reinvestment plan.

Our capital position strengthened through the year and at 31 December 2012 we held \$2.4 billion in regulatory capital resources above minimum regulatory requirements. This is an increase of \$0.9 billion from 2011. We have deliberately built up our capital position over the past few years to ensure we are well prepared to meet stringent new capital standards being introduced in 2013. Further information on the impact of the new capital standards can be found on page nine of this report.

Board

After nine years, Nora Scheinkestel has announced her retirement as a director on our board at the end of the next annual general meeting. Her extensive knowledge, sound judgement, insight and governance expertise (and her wit) have proved invaluable over the many years of her involvement and we greatly appreciate the contribution she has made to our company.

Outlook

While 2013 will be a period of significant change in our industry, we are well positioned for the future. The increased strength and competitiveness of our organisation has given us a strong platform for growth, on which we will capitalise in the year ahead.

Peter Mason
Chairman

Five-year financial summary

Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m	
Consolidated Income statement						
Net premium, fee and other revenue	4,798	4,219	2,824	2,665	2,877	
Investment gains (losses)	12,084	1,464	4,840	8,250	(13,843)	
Profit (loss) before income tax from continuing operations	1,384	673	881	1,228	(1,094)	
Income tax (expense) credit	(697)	3	(126)	(505)	1,668	
Profit from discontinued operations held for sale after income tax	–	–	–	–	6	
Non-controlling interests	17	12	20	16	–	
Profit after tax attributable to shareholders of AMP Limited	704	688	775	739	580	
Consolidated Statement of financial position						
Cash and cash equivalents	4,207	4,652	3,325	2,409	2,056	
Investment assets	106,263	96,972	85,120	84,171	80,641	
Intangibles	4,175	4,347	919	946	939	
Assets of disposal groups	187	–	–	–	–	
Other assets	3,919	4,319	2,241	2,304	3,114	
Total assets	118,751	110,290	91,605	89,830	86,750	
Borrowings and subordinated debt	12,493	12,359	11,136	12,350	12,376	
Life insurance contract liabilities	25,055	24,399	17,762	18,380	19,250	
Investment contract liabilities	58,385	52,940	48,579	47,239	41,510	
Liabilities of disposal groups	74	–	–	–	–	
Other liabilities	15,213	13,695	11,130	9,227	11,497	
Total liabilities	111,220	103,393	88,607	87,196	84,633	
Net assets	7,531	6,897	2,998	2,634	2,117	
Contributed equity	9,339	9,080	5,051	4,814	4,481	
Reserves	(2,156)	(2,534)	(2,565)	(2,563)	(2,598)	
Retained earnings	251	283	452	320	154	
Total equity attributable to shareholders of AMP Limited	7,434	6,829	2,938	2,571	2,037	
Non-controlling interests	97	68	60	63	80	
Total equity	7,531	6,897	2,998	2,634	2,117	
Other financial data						
Basic earnings per ordinary share	(\$ps)	\$0.25	\$0.26	\$0.38	\$0.37	\$0.31
Diluted earnings per ordinary share	(\$ps)	\$0.25	\$0.26	\$0.38	\$0.37	\$0.31
Dividends per ordinary share	(\$ps)	\$0.25	\$0.29	\$0.30	\$0.30	\$0.40
Number of ordinary shares	(m)	2,930	2,855	2,094	2,049	1,993
Assets under management	(\$b)	173	159	115	112	105

2012 results at a glance

Profit

Profit attributable to shareholders was \$704 million for 2012, compared with \$688 million in 2011 ▲ 2%

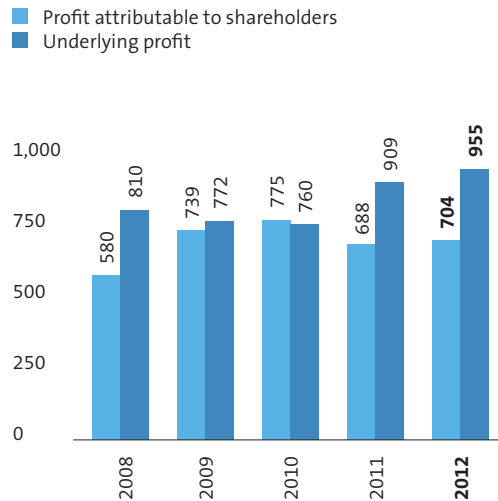
Underlying profit was \$955 million for 2012, compared with \$909 million in 2011 ▲ 5%

The 2011 profit figures include only a nine-month contribution from AXA (AMP merged with AXA Australia and New Zealand in March 2011). Underlying profit is AMP's preferred measure of profitability as it best reflects the underlying performance of AMP. It is the earnings base on which the board determines the dividend payment.

The main difference between the two numbers comes from movements in investment markets and merger costs. A reconciliation of profit attributable to shareholders and underlying profit can be found on pages eight and 58.

Full year profit

\$ million



Dividend

Final dividend of 12.5 cents per share

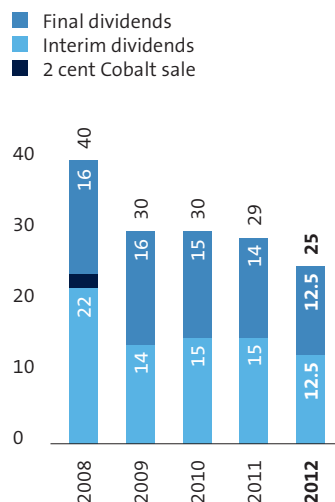
This brings the total dividend for 2012 to 25 cents per share.

The final dividend will be 65 per cent franked and will be paid on 11 April 2013.

The payout ratio for the full 2012 dividend is 76 per cent of the underlying profit from 2012, which is within AMP's target payout range of 70–80 per cent of underlying profit.

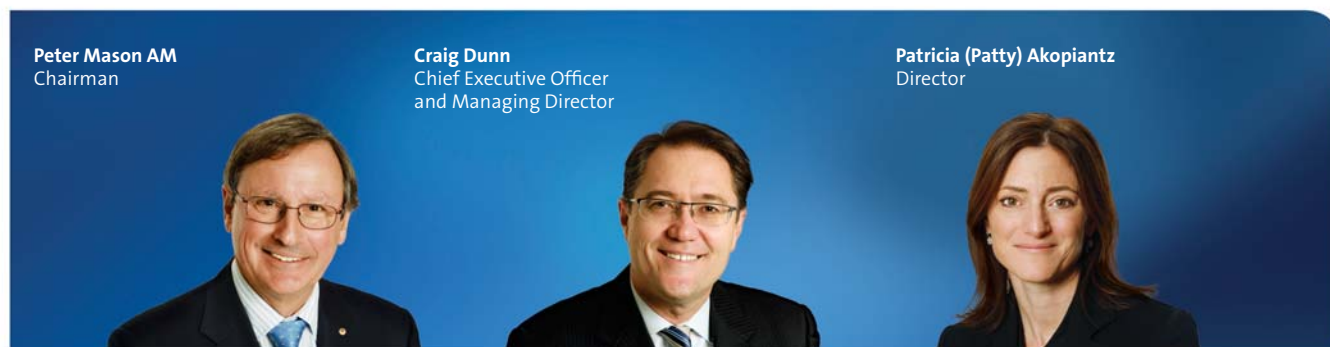
Dividends and payments to shareholders

cents per share



Directors' report

for the year ended 31 December 2012



Peter Mason AM
Chairman

Craig Dunn
Chief Executive Officer
and Managing Director

Patricia (Patty) Akopiantz
Director

Your directors present their report on the consolidated entity consisting of AMP Limited and the entities it controlled at the end of or during the year ended 31 December 2012.

Directors' details

The directors of AMP Limited during the year ended 31 December 2012 and up to the date of this report are shown below. Directors were in office for this entire period: Peter Mason (Chairman), Craig Dunn (Chief Executive Officer and Managing Director), Patricia Akopiantz, Richard Allert, Catherine Brenner, Brian Clark, Paul Fegan, John Palmer, Nora Scheinkestel, Peter Shergold.

Details of each director's qualifications, experience and special responsibilities are set out below.

Peter Mason AM Chairman

BCom (Hons), MBA, Hon.DBus (UNSW), FAICD. Age 66
Peter was appointed to the AMP Limited Board in October 2003 and assumed the role of Chairman in September 2005. He is a member of the People and Remuneration Committee and the Nomination Committee.

Experience

Peter has 40 years experience in investment banking and is currently a Senior Advisor to UBS Investment Bank. He was Chairman of JP Morgan Chase Bank in Australia from 2000–2005. Prior to this he was Chairman and Chief Executive of Schroders Australia Limited and Group Managing Director of Schroders' investment banking businesses in the Asia Pacific region. He was a member of the Council of the University of New South Wales for 13 years, a Director of the Children's Hospital in Sydney for 12 years and Chairman of the Children's Hospital Fund for eight years. In 1995, Peter was appointed a member of the Order of Australia for his contribution to the Children's Hospital.

Listed directorships

- Chairman of David Jones Limited (appointed as a Director from November 2007 and Chairman from January 2013)
- Director of Singapore Telecommunications Limited (appointed September 2010)

Other directorships/appointments

- Director of the University of New South Wales Foundation
- Chairman of the UBS Australia Foundation Pty Limited
- Director of Taylors Wines Pty Limited
- Chairman of the Centre for International Finance and Regulation
- Trustee of the Sydney Opera House Trust

Craig Dunn

Chief Executive Officer and Managing Director

BCom, FCA. Age 49

Craig was appointed Chief Executive Officer (CEO) and Managing Director in January 2008. He has been a Director of AMP Life Limited since April 2002, a Director of AMP Capital Holdings Limited since January 2008 and was appointed to The National Mutual Life Association of Australasia Limited (NMLA) Board in March 2011.

Experience

Prior to becoming CEO, Craig was Managing Director, AMP Financial Services from 2002–2007. He joined AMP in January 2000 and has held a number of senior roles including Managing Director of AMP Bank Limited and Director, Office of the CEO.

Before joining AMP, Craig was CEO of a Malaysia-based insurance company, a joint venture of Colonial Limited. He worked for KPMG throughout Europe and in Indonesia before joining Colonial.

Listed directorships

Within the three years immediately before the end of the last financial year, Craig served as a Director of AMP Capital Investors Limited (responsible entity of AMP Capital China Growth Fund, a managed investment scheme listed on the ASX) (2008–December 2011).

Other directorships/appointments

- Advisory Board Member with the Australian Government's Financial Literacy Foundation
- Member of the Australian Government's Financial Services Advisory Committee
- Leaders Forum Member of the Australian Institute for Population Ageing Research
- Panel Member of the Australian Financial Centre Taskforce
- Executive Member of the Australia Japan Business Co-operation Committee

Patricia (Patty) Akopiantz

Director BA, MBA. Age 49

Patty was appointed to the AMP Limited Board and the People and Remuneration Committee in March 2011. She was appointed a Director of AMP Bank Limited in November 2011, a member of its audit committee in June 2012 and as Chairman of that audit committee in February 2013.

Experience

Patty has over 25 years senior management and consultancy experience, primarily in the retail and consumer industries both in Australia and overseas. Over the last 13 years, she has served on numerous boards including AXA Asia Pacific Holdings Limited and Coles Group Limited. In 2003, she was awarded a Centenary Medal for services to Australian society in business leadership. She has an MBA from Harvard Business School.

Richard (Rick) Allert AO
Director



Catherine Brenner
Director



Brian Clark
Director



Listed directorships

Within the three years immediately before the end of the last financial year, Patty served as a Director of AXA Asia Pacific Holdings Limited (April 2006–March 2011) and Watty Limited (September 2005–September 2010).

Other directorships/appointments

- Director of the NSW State Library Foundation
- Member of Chief Executive Women

Richard (Rick) Allert AO

Director FCA. Age 70

Rick was appointed to the AMP Limited Board and the Audit Committee in March 2011.

Experience

Rick has over 40 years of senior business appointments including, Chairman of AXA Asia Pacific Holdings Limited, Chairman of Tourism Australia, Chairman of Coles Group Limited, Chairman of Southcorp Limited, Chairman of Voyages Hotels and Resorts and President of the National Heart Foundation. In 1997, Rick was appointed a member of the Order of Australia for his service to business and the community, particularly through his work with the National Heart Foundation. In 2003, Rick was awarded a Centenary Medal for service to Australian society through rail transport, business and taxation. In 2007, he was appointed an Officer of the Order of Australia for service to the business sector through leadership and promotion of corporate social responsibility, and to the community through involvement with and support for a range of artistic, charitable and educational organisations.

Listed directorships

- Chairman of Western Desert Resources Limited (appointed January 2011)
- Director of Genesee & Wyoming Inc. (appointed July 2011)

Within the three years immediately before the end of the last financial year, Rick served as a Director of AXA Asia Pacific Holdings Limited (September 1995–March 2011, Chairman from April 2000) and as Deputy Chairman of Gerard Lighting Group Limited (March 2010–October 2012).

Other directorships/appointments

- Chairman of the Aboriginal Foundation of South Australia Inc
- Deputy Chairman of Cavill Power Products Pty Limited
- Director of Genesee & Wyoming Australia Pty Limited
- Director of RG & RT Trott Pty Limited
- Member of the Australian Forces Entertainment Board
- Chairman of Ikara Wilpena Enterprises Pty Ltd and Wilpena Pound Aerodrome Services Pty Ltd

Catherine Brenner

Director BEc, LLB, MBA. Age 42

Catherine was appointed to the AMP Limited Board in June 2010. She was appointed to the AMP Life Limited Board in May 2009 and became Chairman in May 2011. Catherine is a member (and former Chairman) of the AMP Life Limited Audit Committee. She was appointed Chairman of The National Mutual Life Association of Australasia Limited (NMLA) Board and a member of the NMLA Audit Committee in March 2011.

Experience

Catherine is a former Managing Director, Investment Banking at ABN AMRO where she held various senior roles. Prior to this she was a corporate lawyer.

Listed directorships

- Director of Boral Limited (appointed September 2010)
- Director of Coca-Cola Amatil Limited (appointed April 2008)

Within the three years immediately before the end of the last financial year, Catherine served as a Director of Centennial Coal Company Limited (2005–September 2010).

Other directorships/appointments

- Trustee of the Sydney Opera House Trust
- Member of the Takeovers Panel
- Council Member of Chief Executive Women

Brian Clark

Director DSc. Age 64

Brian was appointed to the AMP Limited Board in January 2008. He is a member of the Nomination Committee and the People and Remuneration Committee. Brian is Chairman of the AMP Capital Holdings Limited Board and a member of its Audit Committee.

Experience

Brian spent 10 years in a variety of senior executive roles at Vodafone internationally, most recently in the United Kingdom as Group Human Resources Director. He was Chief Executive Officer (CEO) of Vodafone's Australian business as well as CEO of the Asia Pacific region, based in Tokyo. Before joining Vodafone, Brian spent three years as CEO of Telkom SA Ltd, in South Africa. Brian has degrees in physics and mathematics from the University of Pretoria, and has completed the Advanced Management Program at the Harvard Business School.

Listed directorships

- Director of Boral Limited (appointed May 2007)

Within the three years immediately before the end of the last financial year, Brian served as Chairman of AMP Capital Investors Limited (responsible entity of AMP Capital China Growth Fund, a managed investment scheme listed on the ASX) (2008–December 2011).



Paul Fegan

Director MBA. Age 51

Paul was appointed to the AMP Limited Board in August 2009. He was appointed to the Audit Committee in November 2009 and became Chairman of that committee in December 2010. Paul was Chairman of AMP Bank Limited from May 2012–February 2013 and served as a Director on that board from April 2010–February 2013.

Experience

Paul has over 30 years experience in the financial services industry. He was appointed Chief Financial Officer of Genworth Australia in January 2013. Paul was Group Managing Director, Strategy and Corporate Services with Telstra from February 2011–January 2012 and was the Chief Executive Officer (CEO) of St.George Bank from November 2007 and CEO and Managing Director from February 2008 until its merger with Westpac Banking Corporation in December 2008. He was also a Director of St.George's funds administration subsidiary, Asgard Wealth Solutions. Prior to joining St.George, Paul was based in the UK as Chief Operating Officer of Yorkshire Bank. He held director positions in both Yorkshire Bank and Clydesdale Bank and a series of senior appointments with National Australia Bank in Australia, the US, Hong Kong, the UK and Ireland.

John Palmer ONZM

Director BAgSc, FNZID. Age 65

John was appointed to the AMP Limited Board in July 2007. He is Chairman of the People and Remuneration Committee. John has been a Director of the AMP Life Limited Board since May 2004. He was appointed to The National Mutual Life Association of Australasia Limited (NMLA) Board in March 2011.

Experience

John has extensive experience as a director and chairman of companies in the agricultural and finance sectors. He has a track record of successfully leading change and reconstruction of diverse corporates in marketing, agribusiness and aviation.

In 1998, John received the Bledisloe Cup for outstanding contribution to the New Zealand fruit industry. In 1999, he was awarded with an Officer of the New Zealand Order of Merit (ONZM) for service to the New Zealand kiwifruit industry.

Listed directorships

- Chairman of Air New Zealand Limited (appointed November 2001)

Other directorships/appointments

- Chairman of Rabobank New Zealand Limited
- Director of Rabobank Australia Limited

Dr Nora Scheinkestel

Director LLB (Hons), PhD, FAICD. Age 52

Nora was appointed to the AMP Limited Board in September 2003. She is Chairman of the Nomination Committee, a Director of AMP Capital Holdings Limited and a member of its Audit Committee.

Experience

Nora is an experienced director having served as a non-executive chairman and director of companies in a wide range of industry sectors and in the public, government and private spheres. Nora's executive background is as a senior banking executive in international and project financing, responsible for the development and financing of major projects in Australasia and South East Asia. She consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance. In 2003, Nora was awarded a Centenary Medal for services to Australian society in business leadership.

Listed directorships

- Director of Orica Limited (appointed August 2006)
- Director of Pacific Brands Limited (appointed June 2009)
- Director of Telstra Corporation Limited (appointed August 2010)

Within the three years immediately before the end of the last financial year, Nora served as a Director of AMP Capital Investors Limited (responsible entity of AMP Capital China Growth Fund, a managed investment scheme listed on the ASX) (2004–December 2011).

Other directorships/appointments

- Associate Professor at the Melbourne Business School at Melbourne University
- Member of the Takeovers Panel

Professor Peter Shergold AC

Director BA (Hons), MA, PhD, FAICD. Age 66

Peter was appointed to the AMP Limited Board in May 2008. He is a member of the Audit Committee and has been a Director of the AMP Life Limited Board since August 2008. Peter is also a member of the AMP Life Limited Audit Committee. He was appointed to The National Mutual Life Association of Australasia Limited (NMLA) Board in March 2011 and is a member of its Audit Committee.

Experience

Peter is Chancellor and Chair of the board of trustees of the University of Western Sydney. He serves on a wide range of private sector, government and not-for-profit boards.

Previously, Peter served as Secretary of the Department of the Prime Minister and Cabinet for five years, CEO of the Aboriginal and Torres Strait Islander Commission, Public Service Commissioner, Secretary of the Department of Employment, Workplace Relations and Small Business, and Secretary of the Department of Education, Science and Training. He was appointed a member of the Order of Australia in 1996, awarded a Centenary Medal in 2003 and made a Companion of the Order of Australia in 2007 for public service.

Other directorships/appointments

- Director of Corrs Chambers Westgarth
- Chairman of QuintessenceLabs Pty Limited
- Chairman of the National Centre for Vocational Education Research
- Director of the General Sir John Monash Foundation
- Director of the National Centre for Indigenous Excellence
- Chairman of the NSW Public Service Commission Advisory Board
- Deputy Chairman of the Sydney Writers' Festival
- Chairman of the Aged Care Reform Implementation Council
- Director of the Queensland Public Sector Renewal Board

Company secretaries' details

Details of each company secretary of AMP Limited, including their qualifications and experience, are set out below.

Brian Salter

General Counsel BA, LLB (Hons), LLM (Hons), MAICD, F. ASF
Brian joined AMP on 1 July 2008. Before joining AMP, Brian was a partner with a major Australian law firm for 19 years.

He has more than 30 years experience advising many of Australia's leading financial and wealth management companies. Brian is a member of the Legal Committee of the Australian Government's Corporations and Markets Advisory Committee, the Law Committee of the Australian Institute of Company Directors, the Corporations Committee of the Business Law Section of the Law Council of Australia, the Attorney General's Expert Group on Private International Law and a Director of AMP Superannuation Limited, N.M. Superannuation Proprietary Limited and SCECGS Redlands Limited.

Darryl Mackay

Head of Secretariat and Company Secretary BSc, FIAA
Darryl joined AMP in March 2011 from AXA Asia Pacific Holdings Limited, where he held the roles of Company Secretary and General Manager, Group Chief Executive's Office. In his 33 years at AXA, Darryl held a range of senior roles including General Manager Group Human Resources and Deputy Chief Executive International. Darryl is currently a director of various AMP subsidiaries, including AMP Superannuation Limited and N.M. Superannuation Proprietary Limited.

Vicki Vordis

Company Secretary BEc, LLB (Hons), GradDipACG, ACIS
Vicki is a Company Secretary of AMP Life Limited and The National Mutual Life Association of Australasia Limited. She joined AMP in December 2000 and held various legal roles before moving into a secretariat role in 2006. Prior to 2000, Vicki worked as a lawyer in several city law practices. She holds a graduate diploma in Applied Corporate Governance and is an Associate of Chartered Secretaries Australia.

Attendance at board and committee meetings

The table below shows details of attendance by directors of AMP Limited at meetings of boards and the committees of which they were members during the year ended 31 December 2012. The directors also attended other meetings, including management meetings and meetings of subsidiary boards or committees of which they were not a member during the year.

Board/Committee Held/Attended	AMP Limited Board		Audit Committee		Nomination Committee		People and Remuneration Committee		Diversity Advisory Committee		Ad hoc committees ¹		Subsidiary board and committee ²	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Peter Mason ³	10	10	–	–	4	4	5	5	–	–	2	2	–	–
Craig Dunn	10	10	–	–	–	–	–	–	3	3	2	2	19	18
Patty Akopiantz	10	10	–	–	–	–	5	5	–	–	–	–	11	11
Rick Allert	10	10	6	6	–	–	–	–	–	–	–	–	–	–
Catherine Brenner	10	10	–	–	–	–	–	–	3	3	–	–	16	16
Brian Clark	10	10	–	–	4	4	5	5	3	3	–	–	11	10
Paul Fegan	10	10	6	6	–	–	–	–	–	–	–	–	9	9
John Palmer	10	9	–	–	–	–	5	5	–	–	–	–	12	11
Nora Scheinkestel	10	9	–	–	4	4	–	–	3	3	–	–	16	16
Peter Shergold	10	10	6	6	–	–	–	–	3	3	–	–	16	16

Column A – indicates the number of meetings held while the director was a member of the board/committee.

Column B – indicates the number of those meetings attended.

1 Ad hoc committees of the board were constituted during the year in relation to financial results.

2 Subsidiary board and committee meetings include AMP Life/NMLA, AMP Bank and AMP Capital Holdings. Where meetings of AMP Life/NMLA were held concurrently, only one meeting has been recorded in the above table.

3 The chairman attended a number of Audit Committee and subsidiary board and committee meetings held during 2012 in an ex officio capacity.

Operating and financial review

Principal activities

AMP is Australia and New Zealand's leading independent wealth management company, with a retail banking business in Australia and a growing international investment management business. It provides financial advice, products and services and investment opportunities to help people and organisations build financial security.

The company serves five million retail customers in Australia and New Zealand and almost 400 institutional clients in these markets. It also serves clients in Asia, Europe, the Middle East and North America. AMP has 5,829 employees, around 873,000 shareholders and \$173 billion of assets under management.

AMP Financial Services

AMP Financial Services provides customers in Australia and New Zealand with financial planning and advice, superannuation, retirement income and other investment products for individuals, superannuation services for businesses, income protection, disability and life insurance and selected banking products. These products and services are primarily provided through a network of 4,276 self-employed financial planners and advisers, as well as through extensive relationships with independent financial advisers.

In June 2012, AMP announced the acquisition of the Cavendish Group's self-managed superannuation fund (SMSF) and investment portfolio administration operations and became Australia's leading SMSF administrator. Cavendish is Australia's largest SMSF administrator, with more than 5,000 funds. The acquisition was completed on 3 July 2012.

AMP Bank has approximately 100,000 customers, a mortgage book of \$12.4 billion and a deposit book of \$8.3 billion.

AMP Financial Services reports as Australian Wealth Management (WM), Australian Wealth Protection (WP), Australian Mature (Mature) and AMP Financial Services New Zealand (AFS NZ) business units.

The WM business provides customers with financial planning services (through aligned and owned advice businesses), superannuation, retirement income, investment, SMSF administration and banking products.

WP comprises individual and group term, disability and income protection risk products. Products can be bundled with a superannuation product or held independently.

The Mature business is the largest closed life insurance business in Australia. Mature AUM supports capital guaranteed products (73 per cent) and market linked products (27 per cent). Mature products include whole of life, endowment, investment linked, investment account, retirement savings account (RSA), eligible rollover fund (ERF), annuities, insurance bonds, personal superannuation, guaranteed savings accounts (GSA) and traditional participating products.

AFS NZ provides tailored financial products and solutions to New Zealanders through the largest network of accredited financial advisers in New Zealand. AFS NZ's risk business is the second largest by market share and is complemented by the industry's largest wealth management business. KiwiSaver is providing strong growth for the wealth management business.

AMP Capital

AMP Capital is one of Asia Pacific's largest diversified investment managers, managing around \$129 billion in assets for investors. Through a team of in-house investment professionals and a carefully selected global network of investment partners, AMP Capital invests in equities, fixed interest, property, infrastructure, multi-manager and multi-asset funds. AMP Capital also provides commercial, industrial and retail property management services. AMP Capital has established operations in Australia and New Zealand and a growing international presence with offices in Bahrain, China, Hong Kong, India, Japan, Luxembourg, the United Kingdom and the United States.

In March 2012, AMP Capital formed a strategic business and capital alliance with a leading Japanese bank, Mitsubishi UFJ Trust and Banking Corporation (MUTB). The alliance will accelerate AMP Capital's growth in Asia and significantly expand its distribution capabilities in Japan. MUTB acquired a 15 per cent minority interest in AMP Capital Holdings Limited, the parent company of the AMP Capital group of companies, for \$425 million.

Review of operations and results

AMP operates in one of the largest and fastest growing wealth management markets in the world. It holds market-leading positions in financial advice and key product categories, achieved through high quality, award-winning products, platforms and investment capabilities and a broad distribution footprint. The company's scale, efficiency, large and diverse customer base and trusted brand are a competitive set of advantages.

AMP's profit attributable to shareholders of AMP Limited for the year ended 31 December 2012 was \$704 million. The profit attributable to shareholders of AMP Limited for the year ended 31 December 2011, which included only a nine-month contribution from the Australian and New Zealand businesses of AXA Asia Pacific following its merger with AMP on 30 March 2011, was \$688 million.

Basic earnings per share for the year ended 31 December 2012 on a statutory basis was 24.7 cents per share (2011: 26.3 cents per share).

Underlying profit is the basis on which the board determines the dividend payment. It is AMP's preferred measure of profitability as it removes merger related costs and some of the impact of investment market volatility. AMP's underlying profit for the year ended 31 December 2012 was \$955 million (2011: \$909 million, including nine months of AXA). On an underlying basis, earnings were 33.0 cents per share (2011: 34.3 cents per share).

AMP's key performance measures were as follows:

- underlying profit \$955 million was up five per cent on 2011
- cost to income ratio was 47.3 per cent for the year to 31 December 2012 compared to 47.9 per cent in 2011
- growth measures
 - AMP Financial Services net cashflows of \$1,152 million, up from net cashflows of \$581 million in 2011; AMP Capital external net cash outflows were \$1,784 million, compared with net cash outflows of \$1,166 million in 2011
 - AMP Financial Services value of risk new business was down \$12 million on 2011 to \$203 million
- underlying return on equity decreased 2.3 percentage points to 12.8 per cent in 2012 from 2011, reflecting higher capital which offset the growth in underlying profit.

Total AMP assets under management were \$173 billion at 31 December 2012, up from \$159 billion at 31 December 2011, including assets under management of \$7 billion arising from acquisitions by the SMSF business unit established in June 2012.

Differences between underlying profit and statutory profit

The 31 December 2012 underlying profit of \$955 million excludes the impact (net of any tax effect) of:

- investment income and annuity market value adjustments losses of \$21 million
- risk product market adjustments loss of \$4 million
- net benefit from one-off and non-recurring items of \$34 million
- merger and acquisition transaction costs of \$4 million
- AXA integration costs of \$128 million
- amortisation of AXA acquired intangible assets of \$99 million
- accounting mismatch losses of \$29 million.

A reconciliation between underlying profit and statutory profit is provided in note 3 of the financial report.

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

The accounting mismatches arise from policyholder interests in the following:

- treasury shares (AMP Limited shares held by the statutory funds on behalf of policyholders) – loss of \$36 million created by rises in the AMP share price (2011: \$28 million profit)
- owner-occupied properties – loss of \$3 million (2011: \$1 million loss)
- AMP life insurance statutory funds' investments in controlled entities – profit of \$1 million (2011: \$38 million loss)
- AMP life insurance statutory funds' superannuation products invested with AMP Bank – profit of \$9 million (2011: \$8 million loss).

The operating results of each of the business segments were as follows (2011 operating earnings for each segment included only a nine-month contribution from the Australian and New Zealand businesses of AXA Asia Pacific which merged with AMP on 30 March 2011):

- *Australian Wealth Management (WM)* – Operating earnings increased by \$25 million (eight per cent) to \$347 million in 2012 from \$322 million in 2011. The increase in operating earnings was driven by stronger net cashflows and improving investment markets, mortgage growth in AMP Bank and continued cost focus including the realisation of cost synergies.
- *Australian Wealth Protection (WP)* – Operating earnings decreased \$25 million (12 per cent) to \$190 million in 2012 from \$215 million in 2011 on worsening lapse and claims experience.
- *Australian Mature* – Operating earnings increased by \$14 million (nine per cent) to \$167 million in 2012 from \$153 million in 2011. Operating earnings benefited from higher investment markets including bond yields and lower controllable costs offset by expected portfolio run off.
- *AMP Financial Services New Zealand* – Operating earnings decreased by \$3 million (four per cent) to \$73 million in 2012 from \$76 million in 2011 primarily as a result of experience losses driven primarily by higher lump sum claims.
- *AMP Capital* – Operating earnings after minority interests increased by \$16 million (19 per cent) to \$99 million in 2012 from \$83 million in 2011. Operating earnings increased as a result of investment performance driving higher performance fees, increased AUM-based management fees generated by higher average AUM and fee rates and a strong contribution from shareholder investments in AIMS AMP Capital Industrial REIT and other assets.

Likely developments

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

Capital management

Equity and reserves of the AMP group attributable to shareholders increased to \$7.43 billion at 31 December 2012 from \$6.83 billion at 31 December 2011. This increase was due to profits over the period, proceeds from completion of the MUTB strategic business and capital alliance and additional share capital issued under the dividend reinvestment plan.

AMP remains well capitalised, with \$2.42 billion in regulatory capital resources above minimum regulatory requirements (MRR) at 31 December 2012 (\$1.54 billion at 31 December 2011)

consisting of \$1.64 billion of shareholder capital resources above MRR and \$0.78 billion of policyholder surplus.

AMP continues to actively manage its capital position in light of continuing market volatility and regulatory changes.

AMP has declared a final dividend of 12.5 cents per share, franked to 65 per cent. The dividend payout ratio is 76 per cent of underlying profit for the year ended 31 December 2012. AMP's dividend policy is to pay out 70 – 80 per cent of underlying profit, franked to the maximum extent possible.

AMP will continue to offer a dividend reinvestment plan (DRP) for shareholders. No discount will apply in determining the DRP allocation price. The DRP will not be underwritten and new shares will be issued.

Political donations

AMP's policy is that it does not make donations to political parties. AMP did not make any political donations during 2012. AMP did contribute \$20,000 to the Menzies Research Centre and \$20,000 to the Chifley Research Centre to assist with public policy development. These contributions are permitted under AMP's policy.

Significant changes to the state of affairs

Details of capital changes during 2012 are set out earlier in this report.

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 reporting date that has significantly affected or may significantly affect the entity's operations in future years; the results of those operations in future years; or the entity's state of affairs in future years which is not already reflected in this report, other than the following:

- From 1 January 2013, revised APRA Life and General Insurance Capital (LAGIC) standards apply to AMP Life Limited and The National Mutual Life Association of Australasia Limited (the AMP life insurance entities) and the North guarantee product. Under LAGIC, the AMP group regulatory capital resources above MRR of \$2,420 million will exclude the policyholder surplus of \$776 million. While not included in the capital position, policyholder surpluses remain available to absorb adverse markets and other impacts in the participating business.

As a result of applying LAGIC on 1 January 2013, AMP group's capital requirement increased by \$272 million. AMP group strengthened its capital position during 2012 in anticipation of these changes and AMP group's shareholder surplus above MRR increased from \$990 million at 31 December 2011 to \$1,644 million at 31 December 2012. The LAGIC requirements have now reduced the surplus to \$1,372 million at 1 January 2013. A number of capital efficiency initiatives are being targeted in 2013 to reduce capital requirements in the AMP life insurance entities and for the North product. The AMP life insurance entities continue to meet minimum regulatory requirements.

- On 21 February 2013, AMP announced a final dividend on ordinary shares of 12.5 cents per share. Details of the announced dividend and dividends paid and declared during the year are disclosed in note 18 of the financial report.

The environment

In the normal course of its business operations, AMP is subject to a range of environmental regulations, of which there have been no material breaches during the year. Further information on AMP's environment policy and activities is included in the 2012 corporate governance statement.

Indemnification and insurance of directors and officers

Under AMP's 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 AMP Limited Board. No such indemnities have been provided during or since the end of the financial year.

During the financial year, the company agreed to insure all of the officers (including all directors) of the AMP group against certain liabilities as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the cover, the amount of the premium, the limit of liability and other terms.

In addition, the company and each of the directors are parties to deeds of indemnity and access, as approved by the board. Those deeds of indemnity and access provide that:

- the directors 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)
- the company indemnifies the directors to the extent permitted by law
- the indemnity covers liabilities incurred by the directors in their capacity as officers of the company and of other AMP group companies, and
- the company will maintain directors' and officers' insurance cover for the directors to the extent permitted by law for the period of their office and for seven years after they cease to hold office.

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 Limited

The directors have obtained an independence declaration from the company's auditor, Ernst & Young, for the year ended 31 December 2012.



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

Auditor's Independence Declaration to the Directors of AMP Limited

In relation to our audit of the financial report of AMP Limited for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Andrew Price Partner
21 February 2013

Liability limited by a scheme
approved under Professional
Standards Legislation

Andrew Price played a significant role in the audit of AMP for the five successive financial years ending 31 December 2011. In order to comply with legal requirements, the board was required to pass a resolution to approve Andrew Price playing a significant role in the audit of AMP for a sixth financial year (the year ended 31 December 2012).

The board has approved Andrew Price playing a significant role in the audit of AMP for the year ended 31 December 2012. The approval:

- is consistent with maintaining the quality of the audit provided to AMP, and
- does not give rise to a conflict of interest situation (as defined in section 324CD of the *Corporations Act 2001*), for the reasons set out below:
- Andrew Price's detailed knowledge of the corporate history of the AMP group will:
 - assist Ernst & Young to maintain the quality of the audit and provide the board with an appropriate level of independent assurance, whilst the integration of the AXA businesses into the AMP group continues, and
 - provide continuity and assist the Audit Committee chairman and chief financial officer, who have been in their roles since December 2010 and January 2012 respectively, and
- his involvement will not impair the actual or perceived independence of the 2012 audit, due to the auditor independence policies operated by AMP and Ernst & Young.

Non-audit services

The Audit Committee has reviewed details of the amounts paid or payable for non-audit services provided to the AMP group of companies during the year ended 31 December 2012, by the company's auditor, Ernst & Young.

The directors are satisfied that the provision of those non-audit services by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act* and did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:

- all non-audit assignments were approved in accordance with the process set out in the AMP charter of audit independence
- no non-audit assignments were carried out which were specifically excluded by the AMP charter of audit independence, and
- the level of fees for non-audit services amounted to \$2,822,000 or 17 per cent of total audit fees (refer to note 33 of the financial report for further details).

Remuneration disclosures

The remuneration arrangements for AMP directors and senior executives are outlined in the remuneration report which forms part of the directors' report for the year ended 31 December 2012.

Directors' and senior executives' interests in AMP Limited shares, performance rights and options are also set out in the remuneration report on the following pages.

Remuneration report

The directors are pleased to present this year's remuneration report, which is divided into the following sections:

- 1 2012 remuneration overview
- 2 Remuneration strategy and governance
- 3 Remuneration structure in 2012
- 4 The link between company performance and remuneration
- 5 Remuneration for the nominated executives in 2012
- 6 Contractual arrangements for nominated executives
- 7 Non-executive director remuneration.

1 2012 remuneration overview

1.1 Remuneration strategy and structure

AMP's remuneration strategy is to align remuneration with the creation of value for shareholders by attracting and retaining employees who will contribute to AMP's success and motivating them to achieve outstanding performance against AMP's business objectives. This is enabled through AMP's remuneration structure, which included the following key components in 2012:

Employee group	Fixed remuneration	Short-term incentives (STI) ¹ or profit share ²	Long-term incentives (LTI)	Other equity arrangements
Non-executive directors	Board fees, committee fees and superannuation	None	None	26% of fees required to be taken as shares bought on market
Nominated executives³	Annual base salary and superannuation	Annual awards dependent on individual, business unit and company performance assessed against financial and non-financial measures	Performance rights: rights to AMP Limited shares subject to a three-year relative total shareholder return (TSR) performance hurdle	Minimum shareholding required STI deferral: deferral of 40% of the STI into rights to AMP Limited shares subject to a two-year service condition
Other senior leaders			Performance rights and/or share rights: selected employees received performance rights (as above) and/or rights to AMP Limited shares that are subject to a three-year service condition	STI deferral: selected senior leaders defer 40% of their STI into rights to AMP Limited shares subject to a two-year service condition
Other employees			None	STI match: selected employees receive rights to AMP Limited shares valued at an additional 50% of their STI, subject to a two-year service condition

- 1 A limited number of investment management and sales employees also participated in tailored business unit plans, which are based on individual/team financial measures and delivered in cash.
- 2 The managing director of AMP Capital and selected senior leaders of AMP Capital participated in the AMP Capital enterprise profit share plan (profit share) as outlined in section 3.2.3.
- 3 The nominated executives are the chief executive officer (CEO) of AMP Limited and his direct reports as listed in section 1.2.

1.2 Remuneration received by the nominated executives in relation to 2012

The table below details the remuneration actually received by the nominated executives in relation to 2012. Long-term incentive (LTI) values are zero as the performance hurdles were not met. There is an accounting value for LTI, however, which is shown in section 5.1 in accordance with statutory disclosure requirements.

Name	Fixed remuneration \$'000	Cash short-term incentive (STI) \$'000	Total cash \$'000	Actual share income		2012 total remuneration \$'000	2011 total remuneration \$'000
				STI deferral vested during 2012 \$'000	Long-term incentive (LTI) and other vested during 2012 \$'000		
Craig Dunn Chief Executive Officer and Managing Director	1,750	1,407	3,157	–	–	3,157	3,008
Craig Meller Managing Director, AMP Financial Services	1,065	852	1,917	–	–	1,917	1,828
Stephen Dunne Managing Director, AMP Capital	1,065	1,068	2,133	–	–	2,133	1,893
Colin Storrie ¹ Chief Financial Officer	950	537	1,487	–	–	1,487	n/a ¹
Brian Salter General Counsel	770	447	1,217	–	–	1,217	1,203
Lee Barnett Chief Information Officer	765	498	1,263	–	–	1,263	1,213
Paul Sainsbury Integration Director and Managing Director, AMP SMSF	650	612	1,262	–	–	1,262	1,076
Matthew Percival General Manager, Public Affairs	565	321	886	–	–	886	897
Fiona Wardlaw General Manager, Human Resources	640	387	1,027	–	–	1,027	1,015
Jonathan Deane General Manager, Group Strategy	525	315	840	–	–	840	843
Total	8,745	6,444	15,189	–	–	15,189	12,976

1 Colin Storrie was appointed as Chief Financial Officer on 1 January 2012 but was not key management personnel (KMP) in 2011. All other executives listed above were KMP during 2011.

The total remuneration received by the nominated executives for 2012 was consistent with 2011. This reflects the board's focus on linking pay with performance:

- **fixed remuneration costs were held flat for executives and most senior leaders:** AMP froze the pay of executives at April 2011 levels, while a budget of up to two per cent of fixed pay increases was made available for some leaders (excluding promotions and other exceptional adjustments). These limits did not apply to staff covered by an enterprise agreement who received higher increases as required.
- **STI outcomes for the nominated executives remained consistent with 2011 STI outcomes:** The variable amount actually received by the nominated executives for 2012 performance, as a percentage of opportunity, also remained consistent with historical levels.
- **performance based LTI did not vest:** The performance period for the 2009 LTI completed in July 2012. The performance rights issued under the 2009 LTI lapsed as the relative total shareholder return (TSR) hurdle was not met.

1.3 Initiatives to enhance the effectiveness of AMP's remuneration approach

Remuneration framework changes

As part of AMP's commitment to ensuring remuneration supports the creation of value for AMP shareholders, the People and Remuneration Committee (PRC) commissioned an extensive review of AMP's remuneration framework and practices in late 2009. Following the review, the board endorsed a three-phased approach to enhancing the effectiveness of AMP's remuneration:

Phase 1	Formalise the AMP Limited Board's and the PRC's role in remuneration governance in line with Australian Prudential Regulation Authority requirements	Implemented in 2010
Phase 2	Design and implement a remuneration framework that complies with prudential regulation and supports business objectives	Implemented in 2011
Phase 3	Review the AMP group performance management approach and short-term incentive plan to ensure it continues to be aligned to business strategy	Implemented in 2012

Changes introduced during phase 3 included:

- providing further clarity in the setting of performance goals to ensure alignment with AMP's business strategy
- updating the STI allocation processes with a focus on rewarding AMP's highest performers
- fully integrating the AMP behaviours into employees' overall performance assessments.

Increased participation in enterprise profit share

AMP Capital added 14 participants to its enterprise profit share plan (profit share), joining the managing director of AMP Capital (AMP Capital MD) and his management team. Participants were selected for their ability to contribute to AMP Capital profit and to provide input into AMP Capital's strategy. The profit share plan is detailed in section 3.2.3.

1.4 Changes to remuneration approach in 2013

The 2013 LTI award for the nominated executives will introduce a second performance measure. The nominated executives and selected other senior leaders previously received LTI awards in the form of performance rights which were subject to a single relative total shareholder return (TSR) performance hurdle. A review of market practices was conducted during 2012, after which it was determined that AMP should introduce a second measure, specifically a return on equity (RoE) measure. This reflects the importance for AMP of managing its capital base, a key contributor to creating sustainable shareholder value. It is proposed that for the 2013 LTI awards:

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

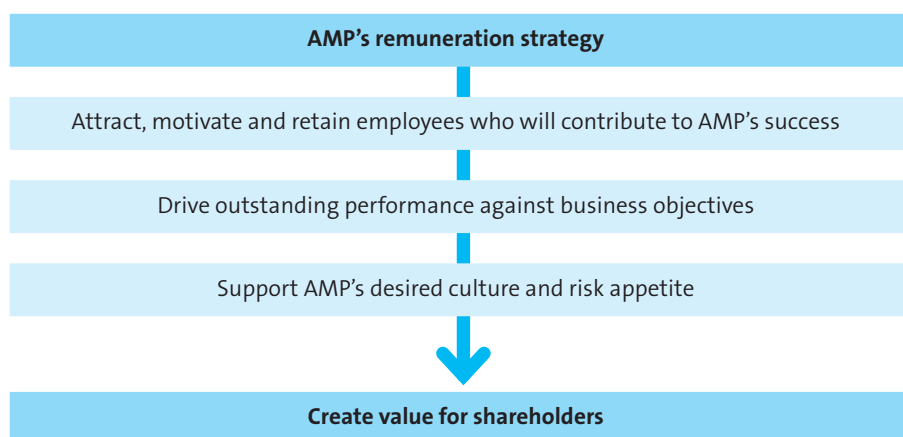
1.5 Key management personnel

For the purpose of this remuneration report and Australian Accounting Standard AASB 124 *Related Party Disclosures* (refer to note 32 to the financial statements), key management personnel (KMP) are defined as including all non-executive directors (NEDs), the chief executive officer (CEO) and other persons having authority and responsibility for planning, directing and controlling the activities of the entity. They include the nominated executives and the non-executive directors of the AMP Limited Board.

2 Remuneration strategy and governance

2.1 The role of remuneration in supporting business strategy

AMP's remuneration strategy is to align remuneration with the creation of value for shareholders, as illustrated below.



AMP has a comprehensive remuneration policy which outlines the responsibilities of the board, PRC and management in maintaining alignment with the remuneration strategy. Of particular note, the policy requires that remuneration arrangements are simple, practical and supported by a governance framework that avoids conflicts of interest, defines clear accountabilities and ensures that proper checks and balances are in place. Where an external perspective is needed, the PRC requests market practice, regulatory and governance input from its external board remuneration advisor, PricewaterhouseCoopers.

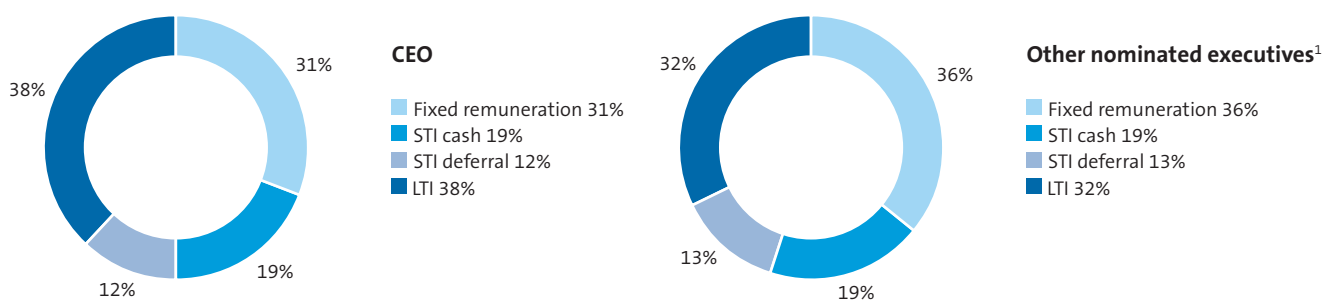
2.2 Remuneration value

AMP generally positions fixed remuneration at the median (ie the 50th percentile) of the market. When determining the relevant 'market' for each role, AMP considers companies from which AMP sources talent and to whom it could potentially lose talent. For the nominated executives, AMP sources data for Australian listed companies of comparable size to AMP, both within the financial services sector and across the general market. Within that market, AMP looks at roles in the same area of expertise, with similar seniority and responsibility to the relevant individual.

Variable remuneration aims to provide the nominated executives with comparable remuneration to their peers in other companies for equivalent performance. Total remuneration above the market median can be realised through the achievement of 'stretch' performance targets.

2.3 Remuneration mix

All of the nominated executives have a significant component of their total remuneration linked to performance. This is illustrated below, using the midpoint for the STI (the STI midpoint is halfway between the minimum outcome of zero per cent and the maximum outcome, which varies for each executive and is outlined in section 4.2). The STI and LTI are 'at risk' remuneration and will only be paid if specified performance hurdles are met.



1 The AMP Capital MD is excluded from the above illustration as he participates in the AMP Capital enterprise profit share plan.

3 Remuneration structure in 2012

During 2012, remuneration for the nominated executives and other senior leaders comprised four key components:

Fixed or 'guaranteed' remuneration	Fixed remuneration	Total fixed remuneration package including superannuation, salary sacrificed benefits and fringe benefits tax thereon	Cash
Variable or 'at risk' remuneration	STI cash	Annual cash award based on individual, business unit and company performance against financial and non-financial measures	
	STI deferral	Portion of STI delivered in rights to AMP Limited shares subject to a two-year service condition and possible forfeiture	Deferred equity
	LTI	Annual grant of rights to AMP Limited shares subject to a three-year relative total shareholder return (TSR) performance hurdle	

Most employees were generally eligible for fixed remuneration and STI cash only. However, high-potential employees at a senior leader level were also eligible to receive an equity award under AMP's STI match plan (refer to section 3.2.2).

3.1 Fixed remuneration

Fixed remuneration at AMP is expressed as an annual salary package and is generally targeted at the median of the market (refer to section 2.2 for more detail). From this amount, AMP deducts the required superannuation contributions and any additional superannuation contributions or salary-sacrificed benefits at the employee's election. Any fringe benefits tax incurred by AMP in providing benefits is on-charged to the employee.

Fixed remuneration for the nominated executives is reviewed by the PRC and approved by the AMP Limited Board annually (but not necessarily increased), with consideration to:

- market remuneration ranges for the role
- the individual's capability, performance and criticality to AMP
- the available budget for remuneration increases.

3.2 Short-term incentives

AMP's short-term incentive (STI) plans provide the nominated executives and other permanent employees with rewards for annual performance against measures set at the beginning of the performance period. The nominated executives participate in the following plans:

- CEO: CEO STI plan (refer to section 3.2.1)
- direct reports to the CEO (other than the AMP Capital MD): AMP group STI plan (refer to section 3.2.2)
- AMP Capital MD: AMP Capital enterprise profit share plan (refer to section 3.2.3).

Other permanent employees participate in the AMP group STI plan and/or tailored business unit plans based on individual/team financial measures.

3.2.1 CEO short-term incentive plan

The CEO's maximum STI opportunity is 200 per cent of fixed remuneration. To determine the annual STI award, the PRC assesses the performance of the CEO against objectives set and approved by the board at the start of each year. The PRC then recommends an STI payment to the board for approval.

In 2012, the CEO's award was based on the measures and weightings provided in 3.2.2, which were selected to reward the CEO for performance that would drive sustainable growth in shareholder value.

3.2.2 AMP group short-term incentive plan

The nominated executives and other permanent employees earn STI awards based on the achievement of AMP's group-wide measures and personal objectives. Information on the STI opportunity for the nominated executives is provided in section 4.2.

STI pool

The board determines the size of the STI pool, assessing AMP's performance against group-wide measures set and approved by the board at the start of each year. The CEO then distributes the STI pool among business units and AMP group functions based on their contribution to AMP's performance.

Group-wide measures

The following AMP group-wide measures were used in 2012 to determine the size of the STI pool (the STI scorecard). These measures were chosen because they align with the company's strategy, objectives and goals as approved by the board, and provide an overall view of performance.

	Financial measures: weighting 60%	Non-financial measures: weighting 40%
Measures	<ul style="list-style-type: none"> – Underlying profit after tax – Underlying return on equity – Value of net cash flows and risk new business – Cost to income ratio 	<ul style="list-style-type: none"> – Investment performance for clients – Customer advocacy and service – Growth in planner/adviser numbers – People and talent, including diversity, culture and employee engagement – Other key strategic priorities, including the AXA integration, growth strategies for SMSF and Asia, staying ahead of regulatory change and prudent risk management
Link to strategy	<ul style="list-style-type: none"> – These financial measures are key drivers of shareholder value 	<ul style="list-style-type: none"> – These measures are key indicators of how successfully the company is delivering against its goals and strategy

The STI pool is calculated based on performance against the STI scorecard and is then adjusted downwards if AMP management operates outside board-approved risk appetite levels. The risk adjustment can be anywhere from 0–100 per cent. The board also has the discretion to consider the quality of AMP's financial results, business leadership and the realisation of strategic opportunities in determining the final STI pool.

Individual performance and development plans (PDPs)

Individual PDPs are set at the start of each year and are designed to focus employees on activities that will drive the achievement of AMP's strategic objectives.

PDPs for the nominated executives typically include some or all of the AMP group measures (refer to Group-wide measures above) and additional business unit/individual measures. People measures apply to all of the nominated executives. Additionally, all employees are measured on the extent to which they exhibit the 'AMP behaviours'. These are the behaviours AMP has identified as critical to driving business performance and growth.

Performance objectives for the nominated executives are agreed with the CEO and approved by the board. The board also approves the setting of performance objectives for individuals who it considers have the ability to impact AMP's financial soundness (specified individuals). At the end of the financial year, the CEO recommends STI payments for his direct reports and other specified individuals based on their performance against the agreed measures, for board approval.

For employees below this level an individual's STI payment will be determined on the basis of AMP's overall performance, the individual's business unit performance and their own performance as assessed against the performance and behavioural goals outlined in their PDP. Recommendations are signed off by the CEO and general manager, Human Resources to ensure group-wide consistency and equity, particularly from a gender pay perspective.

STI deferral plan

The nominated executives and selected other senior leaders who have the ability to impact AMP's financial soundness, participate in the AMP STI deferral plan. The plan requires that 40 per cent of a participant's STI award be delivered in rights to AMP shares (share rights). The share rights convert to AMP Limited shares (ie vest) after a two-year deferral period. Vesting is subject to ongoing employment, compliance with AMP policies and the board's discretion. The 2012 STI deferral awards will be granted in April 2013, following the release of AMP's full-year financial results and calculation of 2012 STI outcomes. The first grant of share rights was made under the STI deferral plan during 2012 based on 2011 STI outcomes. These share rights will convert to AMP Limited shares, subject to the above conditions, in 2014.

STI match plan

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

As with the STI deferral plan, STI match share rights convert to AMP Limited shares (ie vest) after a two-year deferral period. Vesting is subject to ongoing employment, compliance with AMP policies and the board's discretion. The 2012 STI match awards will be granted in April 2013, following the release of AMP's full-year financial results and calculation of 2012 STI outcomes. The first grant of share rights was made under the STI match plan during 2012 based on 2011 STI outcomes. These share rights will convert to AMP Limited shares, subject to the above conditions, in 2014.

3.2.3 AMP Capital enterprise profit share plan

Select leaders from AMP Capital, including the AMP Capital MD, participate in the AMP Capital enterprise profit share plan (profit share). Profit share provides participants with a share of AMP Capital's adjusted pre-tax profit, allowing for an appropriate cost of capital. The size of the profit share pool is agreed upfront by the board. The board has the discretion to adjust the size of the pool to recognise non-profit related performance including AMP behaviours, changes in market conditions and broader financial factors such as AMP's capacity to pay. The board also has the discretion to adjust the profit share pool downwards if AMP Capital management operates outside board-approved risk appetite levels (as per the AMP group STI plan).

Allocation to individuals is determined on a discretionary basis with consideration given to an individual's performance against their annual financial and non-financial objectives and AMP behaviours. Allocations are delivered partly in cash at the end of the financial year (60 per cent of the award), with the remainder deferred into share rights, which vest two years subsequently (40 per cent of the award). The deferred portion is delivered through the AMP group STI deferral plan (described in section 3.2.2). Allocations to the AMP Capital MD are recommended by the CEO for approval by the board. Allocations to other participants are recommended by the AMP Capital MD for approval by the CEO.

Profit share is the exclusive variable remuneration arrangement for participants, except for the AMP Capital MD who also participates in the LTI plan.

3.3 Long-term incentives

AMP's long-term incentive (LTI) plan provides the nominated executives and selected senior leaders with rewards delivered in equity if conditions are met over a three-year period. LTI awards are granted annually, which provides ongoing benefits to participants for increasing shareholder value. The nominated executives and selected other senior leaders receive their LTI in the form of performance rights, which are subject to a relative total shareholder return (TSR) hurdle (refer to section 3.3.1). Other participants may take a portion or all of their LTI in share rights, which are subject to their ongoing service (refer to section 3.3.2).

3.3.1 Performance rights

A performance right is a right to acquire one fully paid ordinary share in AMP Limited after a three-year performance period for no consideration (ie effectively a share option with a zero exercise price), provided a specific performance hurdle is met. The nominated executives are required to take their full LTI award in performance rights. Performance rights are awarded at no cost to the participant.

Performance hurdle

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

3.3.2 Share rights

AMP also awards share rights under the LTI plan. LTI share rights are used to recognise senior leaders who contribute significantly to AMP's overall business success, but have a reduced ability to influence the creation of shareholder value compared to the nominated executives. LTI share rights are rights to acquire one fully paid ordinary share in AMP Limited after a three-year vesting period subject to ongoing service. Share rights are awarded at no cost to the participant and do not carry dividend entitlements. As this program is a means of recognising and retaining employees, no performance hurdles apply during the vesting period, other than continued service.

In years prior to 2011, AMP awarded restricted shares instead of share rights. A restricted share is an ordinary AMP share that has a holding lock in place until a three-year vesting period ends. During this time, the holder is eligible to receive dividends, but is unable to sell, transfer or hedge their award.

Hedging

AMP policy prohibits employees from entering into any hedging arrangement in relation to any vested or unvested shares, options, share rights or performance rights in any AMP share plan. Breaches of this policy will lead to forfeiture of the relevant award. In accepting equity awards, participants are required to agree that they will not enter into any hedging arrangements in relation to the award.

Treatment of LTI on cessation of employment and change of control

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

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

Source of shares

The board has the discretion to satisfy vested rights by either acquiring shares on-market or through the issuance of shares. AMP's practice has been, and intention is to continue, to source the shares to satisfy LTI awards on-market, so that the issue of LTIs does not dilute the value of AMP Limited shares. In the case of the CEO, the vesting of shares may only be provided by AMP procuring the transfer of shares purchased on-market.

3.3.3 Performance rights and share rights granted in 2012

Determining the value of the award and the number of securities

Participation in the LTI and the value of awards is recommended by the PRC for approval by the board (and by shareholders in the case of the award to the CEO). When recommending the value of awards for each participant, the PRC, on advice from the CEO, considers the recipient's seniority, influence on AMP's long-term performance and contribution to AMP over the past 12 months or more. The number of securities is calculated by dividing the value of the award by the fair value of the LTI instrument, which is based on the 10-day average daily closing share price prior to the offer being made. Fair values are discounted for the value of foregone dividends and, in the case of performance rights, the risk of performance conditions not being met.

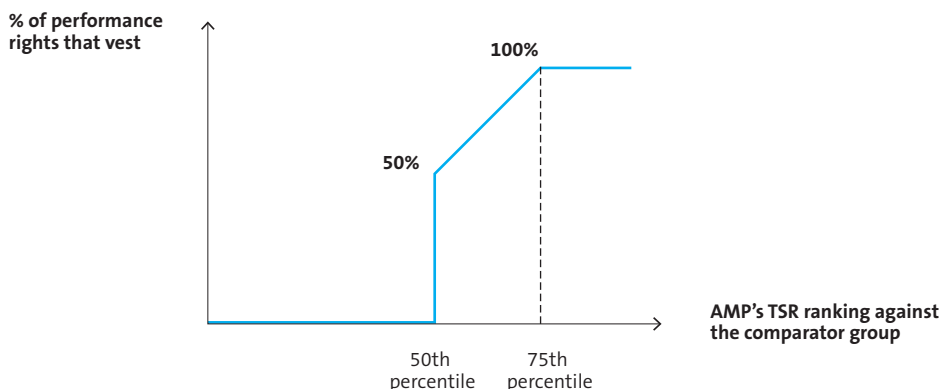
Vesting of performance rights granted, and subject to performance testing during 2012, is dependent on AMP's TSR performance relative to a comparator group of Australian listed companies over a three-year performance period. The comparator group was the top 50 industrial companies in the S&P/ASX 100 Index (based on market capitalisation rank) as defined at the start of the relevant performance period. The performance testing period is provided in the following table.

Plan	2012 annual award	2011 executive award	2011 CEO award	2010 annual award	2009 annual award
Grant date	07/06/2012	09/09/2011	09/06/2011	08/09/2010	12/03/2010 ¹
Performance period	01/03/2012–28/02/2015	01/08/2011–31/07/2014	01/05/2011–30/04/2014	01/08/2010–31/07/2013	01/08/2009–31/07/2012

1 The grant timing was later than usual as a result of pending changes to taxation rules. To ensure continuity in long-term performance assessment, the vesting conditions were applied from August 2009.

Vesting schedule

The proportion of performance rights that vest for each of the above grants was/will be determined according to the vesting schedule depicted below.



At the end of the performance period, an independent external consultant provides the PRC with AMP's TSR ranking against the comparator group. The PRC then determines the number of performance rights, if any, that vest, with reference to the vesting schedule shown in the diagram above. There is no subsequent performance retesting. Consequently, any awards that do not vest at the end of the vesting period are forfeited.

Conversion to shares

If the awards vest, they are automatically converted to shares on behalf of participants. Upon conversion, participants become entitled to shareholder benefits, including dividends and voting rights.

3.4 Other equity arrangements

3.4.1 Executive minimum shareholding requirement

In 2006, the PRC introduced guidelines outlining the minimum number of AMP shares the nominated executives are expected to hold. The guidelines were introduced to strengthen the alignment between the interests of the nominated executives and shareholders in the long-term performance of AMP. The nominated executives were expected to establish and maintain the following minimum shareholdings by 2011 (or within five years of appointment if appointed after 2006):

- CEO: 300,000 shares
- direct reports to the CEO: 60,000 shares.

Share rights allocated to nominated executives as a result of STI deferral will be included in balances for the purpose of minimum shareholding requirements. The table below summarises the movements in the holdings of shares in AMP Limited held by the nominated executives and their personally related entities over the reporting period.

Name	Date by which minimum holding must be met	Holding at 1 Jan 2012	Granted as remuneration during the period	Received on exercise of performance rights or options	Other changes ¹	Holding at 31 Dec 2012
Craig Dunn	Jan 2013	558,497	247,513	–	–	806,010
Craig Meller	Oct 2012	96,207	146,961	–	–	243,168
Stephen Dunne	Jul 2011	209,396	158,867	–	–	368,263
Colin Storrie	Jan 2017	39,416	69,060	–	–	108,476
Brian Salter	Jul 2013	21,978	82,872	–	782	105,632
Lee Barnett	Jul 2011	53,078	85,635	–	–	138,713
Paul Sainsbury	Dec 2015	19,928	78,453	–	(19,928)	78,453
Matthew Percival	Jul 2011	45,000	63,535	–	–	108,535
Fiona Wardlaw	Aug 2013	61,294	71,923	–	2,287	135,504
Jonathan Deane	Jan 2013	93,683	60,825	–	–	154,508

1 Other changes represent individuals' purchases and sales made during the period or participation in the AMP dividend reinvestment plan.

All nominated executives have acquired the necessary number of shares to meet the executive minimum shareholding requirement.

3.4.2 Employee share acquisition plan

From time to time, AMP has provided employees (including the nominated executives) with the opportunity to become shareholders in AMP through the employee share acquisition plan (ESAP), typically by way of salary sacrificing their fixed remuneration or 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 (eg the most recent awards provided one free share for every 10 shares acquired via salary sacrifice). Additionally, AMP can provide employees with free shares under the ESAP. Where the awards are acquired at no cost to the participant, service-based conditions must be met for the participant to receive their full entitlement. The plan was suspended midway through 2009 in Australia due to the changes to the taxation treatment of employee share plan awards. Accordingly, no awards were made under this plan in 2010, 2011 or 2012. The plan continues to operate in New Zealand.

4 The link between company performance and remuneration

4.1 Company performance and short-term incentive expenditure

The following table shows how STI outcomes compared to AMP's financial results over the past five years. STI outcomes and company results are not expected to be perfectly correlated as AMP's STI performance assessment involves a broader consideration of AMP's progress in generating future value for shareholders (eg non-financial performance and financial results relative to the targets set by the board and shareholder expectations).

Financial results	2008	2009	2010	2011	2012
Underlying profit (\$m)	810	772	760	909	955
Operating earnings (\$m)	737	701	686	792	815
Underlying return on equity	39%	32%	26%	15.1%	12.8%
STI pool (\$m)	43	72	62	89 ¹	96 ²
STI pool as % of underlying profit	5%	9%	8%	9.8%	10.1%
Average STI as % of maximum opportunity for the nominated executives	39%	67%	65%	60%	63%
Total dividend (cents per share)	40	30	30	29	25
Share price at 31 December	\$5.42	\$6.77	\$5.29	\$4.07	\$4.81

- 1 The STI pool for 2011 was higher than in 2010 because of the increase in AMP's headcount following AMP's merger with the Australian and New Zealand businesses of AXA Asia Pacific Holdings and other structural changes in the balance of at-risk remuneration for a number of employees.
- 2 The STI pool is inclusive of the CEO STI plan and the AMP group STI plan.

With regard to the non-financial measures as outlined in section 3.2.2, AMP performed strongly overall and particularly against AMP's key strategic priorities. Further commentary is provided below:

Non-financial measures	2012 performance
Customer and clients Investment performance (% AUM meets or exceeds benchmarks) Customer advocacy (% of customers who are advocates)	<ul style="list-style-type: none"> – Investment performance has improved from 69% to 71% over three years and is at 81% over 12 months. – This has remained steady over the 12-month period.
Business partners Increase in numbers of planners/advisers	<ul style="list-style-type: none"> – This was significantly above target (a net increase of 209 new advisers). This reflects the acquisition of Futuro Financial Services, the effectiveness of the Horizon's Academy and the good retention of advisers/planners despite significant competitor activity.
Employees Employee engagement Retention of talent and high performers Performance against diversity targets	<ul style="list-style-type: none"> – Engagement is above target representing strong employee focus for the merger of AXA and AMP. – The retention of talent and high performers significantly exceeded target. – The percentage of women in senior executive roles has increased from 27% to 31% in the year although there was a 1% decrease in the percentage of women in middle management from 38% to 37%.
Other key priorities Deliver integration Build an SMSF business Build preferential distribution partnerships in Asia	<ul style="list-style-type: none"> – Upgraded post tax synergy benefits by \$10m at half year to \$150m. Annual post tax cumulative run rate synergies ahead of plan at \$120m. – The SMSF business was launched in June 2012 and has exceeded growth targets. – AMP acquired the Cavendish SMSF administration business. – Good progress has been made with the MUTB alliance generating net cashflows greater than \$530m. – AMP won its first mandate from China's almost \$150b National Council for Social Security Fund (NCSSF). – Added a number of domestic and international investment professionals including expanded Asian equities capability now located in Hong Kong.

4.2 Company performance and 2012 STI outcomes for the nominated executives

The following table shows STI opportunities for each nominated executive (as a percentage of fixed remuneration) and the proportions of STI opportunity awarded and forfeited during 2012. On average, the nominated executives were awarded 63 per cent of their maximum opportunity. The 2012 STI outcomes for the nominated executives were typically consistent with the 2011 STI outcomes (when the average percentage awarded was 60 per cent).

Executive	Position	Maximum STI opportunity	Awarded ²	Not awarded
Craig Dunn	Chief Executive Officer and Managing Director	200%	67%	33%
Craig Meller	Managing Director, AMP Financial Services	200%	67%	33%
Stephen Dunne	Managing Director, AMP Capital	n/a ¹	n/a ¹	n/a ¹
Colin Storrie	Chief Financial Officer	175%	54%	46%
Brian Salter	General Counsel	175%	55%	45%
Lee Barnett	Chief Information Officer	175%	62%	38%
Paul Sainsbury	Integration Director and Managing Director, AMP SMSF	175%	90%	10%
Matthew Percival	General Manager, Public Affairs	175%	54%	46%
Fiona Wardlaw	General Manager, Human Resources	175%	58%	42%
Jonathan Deane	General Manager, Group Strategy	175%	57%	43%
Average			63%	37%

- 1 The AMP Capital MD has STI opportunity delivered under the AMP Capital enterprise profit share plan (refer to section 3.2.3) and this opportunity is uncapped. Accordingly STI opportunity, % awarded and % not awarded, is not applicable.
- 2 The amounts awarded are inclusive of the deferred component (ie includes both the cash and deferred share rights).

4.3 Company performance and long-term incentive vesting

Performance rights awarded to nominated executives are subject to a total shareholder return (TSR) hurdle whereby AMP's TSR must be equal to or greater than the median TSR of the top 50 industrial companies in the S&P/ASX 100 Index (refer to section 3.3.3 for more detail).

The table below illustrates how LTI outcomes for the nominated executives are linked to shareholder returns. For each LTI grant made during the last four years, the table provides the relevant performance period, and for all completed performance periods:

- AMP's TSR for that period (absolute and relative to the specified comparator group for the relevant LTI award)
- details of whether the award vested.

Year	Award	Performance period for the LTI grant	AMP's TSR for that period ¹	AMP's ranking relative to the LTI comparator group	Vesting status at 31 Dec 2012
2009	Annual award	01/08/2009–31/07/2012	-7.58%	37th	Lapsed
2010	Annual award	01/08/2010–31/07/2013			Performance period not complete
2011	CEO award	01/05/2011–30/04/2014			Performance period not complete
	Executive award	01/08/2011–31/07/2014			Performance period not complete
2012	Annual award	01/03/2012–28/02/2015			Performance period not complete

- 1 TSR was calculated as the growth in share price (using the ASX adjusted price series) plus dividend payments and capital returns over the period. As shown above, performance rights issued under the 2009 LTI offer lapsed as the TSR hurdle was not met.

5 Remuneration for the nominated executives in 2012

5.1 Accounting value of 2012 remuneration

The following table shows the remuneration details for the nominated executives for the year ended 31 December 2012. The share-based payments shown below are not amounts actually received by nominated executives during the year, as they include accounting values for unvested share awards.

Executive		Short-term employee benefits			Post-employment benefits	Subtotal \$'000	Share-based payments ¹		Other long-term benefits	Grand total ⁷ \$'000
		Cash salary ² \$'000	Short-term incentive ³ \$'000	Other short-term benefits \$'000	Super-annuation benefits ⁴ \$'000		Rights ⁵ \$'000	Matching shares ⁶ \$'000	Cash distributions on equity plans \$'000	
Craig Dunn Chief Executive Officer and Managing Director	2012	1,713	1,407	12	25	3,157	2,306	–	–	5,463
	2011	1,648	1,344	–	16	3,008	2,370	–	–	5,378
Craig Meller Managing Director, AMP Financial Services	2012	1,026	852	14	25	1,917	1,070	–	–	2,987
	2011	1,014	798	–	16	1,828	971	–	–	2,799
Stephen Dunne Managing Director, AMP Capital	2012	1,048	1,068	–	17	2,133	1,085	–	–	3,218
	2011	1,014	863	–	16	1,893	971	–	-4	2,860
Colin Storrie ⁸ Chief Financial Officer	2012	911	537	14	25	1,487	283	–	–	1,770
	2011	730	450	–	23	1,203	724	–	–	1,927
Brian Salter General Counsel	2012	716	447	12	42	1,217	721	–	–	1,938
	2011	731	465	–	16	1,212	717	–	–	1,929
Lee Barnett Chief Information Officer	2012	733	498	12	20	1,263	719	–	–	1,982
	2011	634	426	–	16	1,076	407	–	–	1,483
Paul Sainsbury Integration Director and Managing Director, AMP SMSF	2012	536	612	64	50	1,262	514	–	–	1,776
	2011	536	345	–	16	897	531	–	–	1,428
Matthew Percival General Manager, Public Affairs	2012	524	321	1	40	886	532	–	–	1,418
	2011	609	390	–	16	1,015	600	1	–	1,616
Fiona Wardlaw General Manager, Human Resources	2012	603	387	12	25	1,027	602	–	–	1,629
	2011	497	330	–	16	843	492	–	–	1,335
Jonathan Deane General Manager, Group Strategy	2012	479	315	–	46	840	496	–	–	1,336
	2011	497	330	–	16	843	492	–	–	1,335
2012 total		8,289	6,444	141	315	15,189	8,328	–	–	23,517
2011 total		7,413	5,411	–	151	12,975	7,783	1	-4	20,755

1 For accounting purposes, all share-based payments are equity-settled as per the relevant Australian Accounting Standard (AASB 2 *Share-based Payment*).

2 Fixed remuneration remained flat for all nominated executives during 2012, having not increased for the majority of executives since April 2011. Consequently, fixed remuneration for 2012 may appear higher comparative to 2011 full year fixed remuneration.

3 Short-term incentive values represent 60% of the total STI award, with 40% being deferred into STI deferral plan share rights.

4 Superannuation benefits for 2012 include contributions made above statutory requirements.

5 Includes performance rights, share rights and STI deferral plan share rights. The fair value of share rights and performance rights has been calculated as at the grant date by external consultants using Monte Carlo simulation techniques. Fair value has been discounted for the probability of not meeting the performance hurdles. The value of the award made in any year is amortised over the vesting period.

6 Under the employee share acquisition plan (ESAP) participating employees may receive matching shares at the end of the specified vesting period. The employee has no right to dividends on these matching shares until after they are granted. Each matching share has been valued by external consultants as the face value of an AMP ordinary share at grant date less the present value of the expected dividends (not received). The value of the award made in any year is amortised over the vesting period.

7 No termination payments, non-monetary benefits or other post-employment benefits were made to nominated executives during 2012.

8 Colin Storrie was appointed as Chief Financial Officer on 1 January 2012 and was not a KMP in 2011.

5.2 Performance rights holdings

The table below summarises the movements, by number, in the nominated executives' holdings of performance rights granted by AMP Limited, for the year ended 31 December 2012. For details of the fair valuation methodology, refer to note 27 to the financial statements.

Name	Grant date	Fair value per performance right	Market price on exercise	Holding at 1 Jan 2012	Rights granted in 2012	Rights exercised in 2012 ¹	Rights lapsed in 2012	Holding at 31 Dec 2012	Vested ² and exercisable at 31 Dec 2012
Craig Dunn	12/03/10	\$3.53	–	777,778	–	–	777,778	–	–
	08/09/10	\$2.50	–	697,675	–	–	–	697,675	–
	09/06/11	\$2.39	–	729,167	–	–	–	729,167	–
	07/06/12	\$1.28	–	–	1,110,406	–	–	1,110,406	–
Total				2,204,620	1,110,406	–	777,778	2,537,248	–
Craig Meller	12/03/10	\$3.53	–	342,593	–	–	342,593	–	–
	08/09/10	\$2.50	–	307,309	–	–	–	307,309	–
	09/09/11	\$1.92	–	400,376	–	–	–	400,376	–
	07/06/12	\$1.28	–	–	540,609	–	–	540,609	–
Total				1,050,278	540,609	–	342,593	1,248,294	–
Stephen Dunne	12/03/10	\$3.53	–	342,593	–	–	342,593	–	–
	08/09/10	\$2.50	–	307,309	–	–	–	307,309	–
	09/09/11	\$1.92	–	400,376	–	–	–	400,376	–
	07/06/12	\$1.28	–	–	540,609	–	–	540,609	–
Total				1,050,278	540,609	–	342,593	1,248,294	–
Colin Storrrie	12/03/10	\$3.53	–	–	–	–	–	–	–
	08/09/10	\$2.50	–	–	–	–	–	–	–
	09/09/11	\$1.92	–	75,188	–	–	–	75,188	–
	07/06/12	\$1.28	–	–	409,898	–	–	409,898	–
Total				75,188	409,898	–	–	485,086	–
Brian Salter	12/03/10	\$3.53	–	259,260	–	–	259,260	–	–
	08/09/10	\$2.50	–	232,559	–	–	–	232,559	–
	09/09/11	\$1.92	–	246,053	–	–	–	246,053	–
	07/06/12	\$1.28	–	–	332,233	–	–	332,233	–
Total				737,872	332,233	–	259,260	810,845	–
Lee Barnett	12/03/10	\$3.53	–	256,667	–	–	256,667	–	–
	08/09/10	\$2.50	–	230,233	–	–	–	230,233	–
	09/09/11	\$1.92	–	244,455	–	–	–	244,455	–
	07/06/12	\$1.28	–	–	330,076	–	–	330,076	–
Total				731,355	330,076	–	256,667	804,764	–
Paul Sainsbury	12/03/10	\$3.53	–	148,149	–	–	148,149	–	–
	08/09/10	\$2.50	–	132,891	–	–	–	132,891	–
	09/09/11	\$1.92	–	207,707	–	–	–	207,707	–
	07/06/12	\$1.28	–	–	280,456	–	–	280,456	–
Total				488,747	280,456	–	148,149	621,054	–
Matthew Percival	12/03/10	\$3.53	–	190,000	–	–	190,000	–	–
	08/09/10	\$2.50	–	170,432	–	–	–	170,432	–
	09/09/11	\$1.92	–	180,546	–	–	–	180,546	–
	07/06/12	\$1.28	–	–	243,781	–	–	243,781	–
Total				540,978	243,781	–	190,000	594,759	–
Fiona Wardlaw	12/03/10	\$3.53	–	214,815	–	–	214,815	–	–
	08/09/10	\$2.50	–	192,692	–	–	–	192,692	–
	09/09/11	\$1.92	–	204,512	–	–	–	204,512	–
	07/06/12	\$1.28	–	–	276,142	–	–	276,142	–
Total				612,019	276,142	–	214,815	673,346	–
Jonathan Deane	12/03/10	\$3.53	–	175,926	–	–	175,926	–	–
	08/09/10	\$2.50	–	157,808	–	–	–	157,808	–
	09/09/11	\$1.92	–	167,764	–	–	–	167,764	–
	07/06/12	\$1.28	–	–	226,522	–	–	226,522	–
Total				501,498	226,522	–	175,926	552,094	–

1 None of the nominated executives exercised performance rights during 2012.

2 No performance rights vested during 2012.

5.3 Analysis of movements in the value of performance rights and option holdings

The following table summarises the movement of options and performance rights, by value, during 2012. No performance rights were exercised during 2012. No options were granted or exercised during 2012.

Name	Value of performance rights granted during 2012 \$'000	Value of performance rights exercised during 2012 \$'000	Value of performance rights lapsed during 2012 \$'000 ¹
Craig Dunn	1,421	—	3,119
Craig Meller	692	—	1,374
Stephen Dunne	692	—	1,374
Colin Storrie	525	—	—
Brian Salter	425	—	1,040
Lee Barnett	422	—	1,029
Paul Sainsbury	359	—	594
Matthew Percival	312	—	762
Fiona Wardlaw	353	—	861
Jonathan Deane	290	—	705

- 1 Lapsed performance rights are valued using the relevant Australian Accounting Standard (AASB 2 *Share-based Payment*). For the performance rights granted this is the fair value on the date of grant. For the performance rights lapsed this is the closing share price on the date the performance rights lapsed.

5.4 Other incentive arrangements that will impact remuneration in future periods

5.4.1 Employee share acquisition plan matching shares

The following table provides details of the matching shares that may be provided to nominated executives in future years, if the individual meets service conditions in the three-year period subsequent to their acquisition of the shares under the employee share acquisition plan (ESAP). If the participant resigns prior to the end of the three-year period, the award will be forfeited. No shares were acquired in Australia under the ESAP in 2010, 2011 or 2012.

Name	Date shares acquired under the ESAP	Number of shares acquired	Matching shares granted in 2012 ¹	Maximum number of matching shares in future	Estimated value vesting in future years
Fiona Wardlaw	2009	1,000	100	—	—
Jonathan Deane	2009	527	52	—	—

- 1 The nominated executives received 100% of the possible matching share entitlement in respect of shares acquired through the ESAP during 2009 as they met the service requirements for these entitlements.

6 Contractual arrangements for the nominated executives

The table below provides a summary of the key contractual terms agreed with the nominated executives.

Contract term	CEO contract	Other nominated executives
Length of contract	Open-ended	Open-ended
Notice period	<ul style="list-style-type: none"> – Employment may be terminated at any time by AMP giving 12 months' notice or by Craig Dunn giving six months' notice. – AMP may terminate Craig Dunn's employment immediately in certain events, including serious misconduct and material breach of contract. – In each case, AMP may pay the fixed remuneration for the balance of any notice period in order to bring an earlier end to his employment. 	<p>As for CEO, except:</p> <ul style="list-style-type: none"> – Most of the other nominated executives may terminate immediately if there is a material adverse change in their role. – AMP is required to give some longer-serving nominated executives six months' notice if it wishes to terminate for poor performance.
Employee benefits not forming part of fixed remuneration (refer to section 3.1)	Not applicable	Long-serving nominated executives are entitled to up to \$7,500 annually in reimbursement for taxation, legal or financial planning advice.
Entitlements on termination	<ul style="list-style-type: none"> – Accrued fixed salary and statutory entitlements. – Pro-rata STI may be paid for the period since the last 1 January except in case of misconduct or breach of contract. Where provided, the STI is pro-rated for time served and calculated based on performance to the date of termination. – Unvested LTI performance rights may be allowed to continue in the relevant LTI plan in the case of death, disablement, redundancy or notice without cause by AMP. In this case, the awards will continue to be subject to the original performance hurdles and performance periods. – In the case of termination by AMP, or termination due to death, disablement or a material change in circumstances, the most recent LTI award at the time of termination will be reduced pro-rata if 12 months have not passed since the award was granted. – Vested performance rights will be retained on cessation of employment except in the case of serious misconduct or breach of contract. 	<p>As for CEO, except:</p> <ul style="list-style-type: none"> – Some longer-serving nominated executives are entitled to 50% of their maximum annual STI opportunity for the balance of the notice period on redundancy or termination by AMP without cause. – For contracts agreed after 1 January 2010, the above entitlement was removed, as the payment of such amounts would result in termination payments above the threshold requiring shareholder approval. – The most recent LTI award at the time of termination does not lapse pro-rata for time served (in the case of termination by AMP, termination due to death, disablement or a material change in circumstances).
Post-employment restraint	Craig Dunn is contractually restrained from entering employment with a competitor for six months, and has a 12 months' restraint on solicitation of AMP clients and employees.	<ul style="list-style-type: none"> – Most of the other nominated executives are not restricted from entering employment with a competitor. – Restraints on solicitation of AMP clients and employees are either for six or 12 months.

Effective since 2010, employment contracts issued to newly appointed employees (including any new nominated executives) provide that an employee's termination entitlements are limited to amounts not requiring shareholder approval under the *Corporations Act 2001* (ie their termination payments are capped at one year's base salary as defined for the purpose of section 200B of the *Corporations Act 2001*).

7 Non-executive director remuneration

7.1 Philosophy

Fees paid to non-executive directors of the AMP Limited Board are recommended by the Nomination Committee with regard to advice provided by AMP remuneration specialists and the Nomination Committee's appointed external remuneration adviser.

Factors taken into consideration include:

- the level of fees paid to board members of other Australian corporations
- the complexity of AMP's operations
- the responsibilities and workload requirements of board members.

In order to maintain their independence, none of the non-executive directors' remuneration is linked to performance.

7.2 Structure

During 2012, non-executive director remuneration comprised three components.

Benefits	Superannuation and an expense allowance
Fees	Committee and subsidiary board fees
	AMP Limited Board fees

These fees and benefits are subject to the maximum non-executive director fee pool of \$3.85 million.

7.2.1 AMP Limited Board fees

The annual base fee for a non-executive director was unchanged in 2012. The base fees provided to each director are as follows:

	Chairman	Other non-executive directors
Base fee (excluding superannuation) 2012	\$585,000	\$170,000

The AMP Limited Board chairman receives an overall fee in relation to regular duties. No additional fees are paid for his membership of board committees or subsidiary boards, or for his attendance at board meetings or meetings of board committees of which he is not a member. An extra fee may be paid for additional board duties. Board fees are not paid to the CEO as responsibilities regarding board membership are considered to be part of the CEO's normal employment conditions.

7.2.2 Committee and subsidiary board fees

Individual non-executive directors are paid additional fees for duties associated with membership of board committees, membership of AMP subsidiary boards and for duties associated with special purpose committees. The 2012 fees (excluding superannuation) are presented below:

	Board/committee chairman	Board/committee member
AMP Bank Audit Committee	\$25,000	\$15,000
AMP Bank Board	\$80,000	\$50,000
AMP Capital Holdings Audit Committee	\$25,000	\$15,000
AMP Capital Holdings Board ¹	\$110,000	\$70,000
AMP Life/NMLA Audit Committee	\$28,750	\$17,250
AMP Life/NMLA Board	\$158,000	\$98,000
Audit Committee	\$42,000	\$21,000
Diversity Advisory Committee ²	\$7,000	\$5,000
Nomination Committee	\$15,000	\$7,500
People and Remuneration Committee	\$36,750	\$18,350

1 Non-executive directors of AMP Capital Holdings received the same fees in 2012 as were payable to non-executive directors of AMP Capital Investors in 2011. The AMP Capital Investors Board was restructured in 2011 and now consists only of executive directors.

2 In 2013, the People and Remuneration Committee will take over the responsibilities of the Diversity Advisory Committee, which has been dissolved.

During 2012, the Nomination Committee instructed PricewaterhouseCoopers (PwC), its external remuneration adviser, to provide market benchmarking services for the non-executive director roles. PwC did not provide any remuneration recommendations and as such, are not considered to be a remuneration consultant as defined under the *Corporations Act 2001*. As a result of the market review, and of the People and Remuneration Committee's expanded responsibilities, the annual fees payable to the chairman and the members of the People and Remuneration Committee will increase to \$42,000 and \$21,000 respectively, with effect from 1 January 2013.

7.2.3 Benefits

Benefits provided to directors are as follows:

- *Superannuation*: Superannuation contributions totalling nine per cent of total fees are paid in addition to fees and allowances. Directors may also elect to salary-sacrifice their fees into superannuation.
- *Expense allowance*: An annual expense allowance of \$6,000 is paid to each director, except the chairman, for incidental expenses related to the business of the company.
- *Retirement benefits*: No retirement benefits are provided to directors.

7.3 AMP non-executive directors' share plan (NED share plan)

A minimum of 26 per cent of non-executive directors' fees must be taken in the form of AMP shares which are held in the NED share plan for 10 years, or until the director resigns from the AMP Limited Board, unless otherwise withdrawn with the approval of the People and Remuneration Committee. There are no performance hurdles attached to this plan, as non-executive directors use part of their fees to acquire these shares.

Non-executive directors do not participate in any other equity plans.

Shareholdings

The following table summarises the movements in AMP Limited shares held by the non-executive directors and their personally related entities during 2012.

Non-executive director	Holding at 1 Jan 2012	Purchased through the NED share plan	Other changes ¹	Holding at 31 Dec 2012
Peter Mason	474,698	35,926	31,925	542,549
Patricia Akopiantz	10,846	10,440	–	21,286
Richard Allert	67,237	10,440	4,661	82,338
Catherine Brenner	38,305	10,440	1,742	50,487
Brian Clark	43,941	10,440	3,141	57,522
Paul Fegan	23,487	10,440	–	33,927
John Palmer	62,238	10,439	4,335	77,012
Nora Scheinkestel	112,253	10,439	7,600	130,292
Peter Shergold	32,784	10,439	2,412	45,635

¹ Other changes are a result of participation in the dividend reinvestment plan.

AMP Notes are debentures issued by AMP Group Finance Services Limited, a subsidiary of AMP Limited. In addition to their AMP Limited shareholdings above, Brian Clark and Nora Scheinkestel hold 980 and 150 AMP Notes respectively. There were no changes to these AMP Note holdings between 1 January 2012 and 31 December 2012.

7.4 Accounting value of 2012 non-executive director remuneration

The table below shows the remuneration details for the non-executive directors of AMP Limited for 2012.

		Short-term benefits					Post-employment benefits	Total \$'000
		AMP Limited Board and committee fees ¹ \$'000	Fees for other group boards ¹ \$'000	Other short-term benefits \$'000	Additional board duties \$'000	Non-monetary benefits \$'000	Superannuation \$'000	
Peter Mason Chairman	2012 2011	585 576	– –	– –	– 100	– –	16 16	601 692
Patricia Akopiantz Non-executive director	2012 2011	188 141	58 5	6 4	– –	– –	23 14	275 164
Richard Allert Non-executive director	2012 2011	191 143	– –	6 4	– 15	– –	18 13	215 175
Catherine Brenner Non-executive director	2012 2011	175 172	175 153	6 6	– 55	– –	32 33	388 419
Brian Clark Non-executive director	2012 2011	201 198	125 125	6 6	– –	– –	30 30	362 359
Paul Fegan Non-executive director	2012 2011	212 209	68 50	6 6	– 55	– –	26 27	312 347
John Palmer Non-executive director	2012 2011	207 204	98 109	6 6	– 15	– –	28 29	339 363
Nora Scheinkestel Non-executive director	2012 2011	192 193	118 150	6 6	– –	– –	28 31	344 380
Peter Shergold Non-executive director	2012 2011	196 192	115 108	6 6	– 30	– –	29 28	346 364
Total for 2012		2,147	757	48	–	–	230	3,182
Total for 2011 ²		2,097	762	46	310	–	237	3,452

- 1 Details of the non-executive directors' committee memberships and directorships of subsidiary boards are provided in the corporate governance statement.
- 2 In line with disclosure requirements, the totals for the year ended 31 December 2011 relate to individuals disclosed in the 2011 annual report and so do not equal the sum of amounts disclosed for individuals specified for the 2012 annual report.

Signed in accordance with a resolution of the directors.



Peter Mason
Chairman
Sydney, 21 February 2013



Craig Dunn
Chief Executive Officer and Managing Director

Analysis of shareholder profit

for the year ended 31 December 2012

This table shows an analysis of the source of profit after income tax attributable to shareholders of AMP Limited.

All amounts are after income tax	2012 \$m	2011 \$m
AMP Financial Services	777	766
AMP Capital	99	83
Business unit operating earnings	876	849
Group office costs	(61)	(57)
Total operating earnings	815	792
Underlying investment income	226	183
Interest expense on corporate debt	(86)	(82)
AMP Limited tax loss recognition	–	16
Underlying profit	955	909
Market adjustment – investment income	(12)	(50)
Market adjustment – annuity fair value	(9)	13
Market adjustment – risk products	(4)	53
Other items	34	4
Profit after income tax before AMP AAPH merger related adjustments and accounting mismatches	964	929
Merger and acquisition transaction costs	(4)	(42)
AMP AAPH integration costs	(128)	(105)
Amortisation of AMP AAPH acquired intangibles	(99)	(75)
Accounting mismatches	(29)	(19)
Profit attributable to shareholders of AMP Limited	704	688

2012 corporate governance statement

Approach to corporate governance

The AMP Limited Board and management have a set of values that recognise the group's responsibilities to all its stakeholders, including shareholders, customers and clients, business partners and advisers, employees and the community.

The board places great importance on the highest standards of governance and periodically reviews its governance practices to address AMP's obligations as a responsible corporate citizen.

In accordance with the ASX Corporate Governance Principles and Recommendations (ASX Recommendations), AMP has posted copies of its governance practices (including copies of relevant charters, policies and terms of reference) in the corporate governance section of its website: amp.com.au/corporategovernance. The board believes AMP's governance practices were consistent with all of the ASX Recommendations during 2012. The information in this statement is current as at 25 February 2013.

ASX Principle 1: Lay solid foundations for management and oversight

Role of the AMP Limited Board and management

Role of the AMP Limited Board

The board is responsible to AMP's shareholders for the overall governance and performance of the AMP group.

The role of the board includes:

- providing strategic direction to AMP through constructive engagement with senior management in the development, execution and modification of AMP's strategy and in approving AMP's strategic plan
- approving major business initiatives within the AMP group
- guiding and monitoring the businesses within the AMP group
- appointing the managing director and chief executive officer (CEO), the chief financial officer (CFO) and the company secretaries
- monitoring the CEO's performance
- providing advice and counsel to senior management of the AMP group
- approving succession plans for the CEO and reviewing the succession planning policy and approach for the direct reports of the CEO and for critical business roles
- approving AMP group's talent management strategy, including seeking to encourage diversity on the boards of AMP and its key operating subsidiaries and in senior management
- approving remuneration policies and practices, including the total remuneration package, performance objectives and performance appraisal for the CEO, the direct reports of the CEO and other persons whose individual activities may, in the People and Remuneration Committee's opinion, affect the AMP group's financial soundness or that of its key operating subsidiaries
- overseeing and approving AMP group's governance model, including monitoring and overseeing the work of the boards of the key operating subsidiaries and monitoring the implementation by those boards of the policies and decisions of the AMP Limited Board
- seeking to ensure the effectiveness of the boards of AMP and its key operating subsidiaries; approving the remuneration for AMP and key operating subsidiary non-executive directors, as recommended by the Nomination Committee

- reviewing and approving policies that seek to ensure the AMP group's businesses are conducted ethically
- reporting to AMP shareholders
- considering AMP shareholders' views on the management and direction of the AMP group
- considering the interests of all stakeholders in the AMP group, including its shareholders, customers and clients, business partners and advisers, employees and the community
- approving policies that seek to ensure AMP group's compliance with its legal and regulatory obligations
- reviewing and approving AMP group's strategic risk management and seeking to ensure appropriate group-wide compliance and risk frameworks are in place
- approving major decisions concerning the financial capital of the AMP group
- monitoring the AMP group's financial results
- determining dividends
- approving the half and full year financial results for the AMP group
- approving releases to the Australian Securities Exchange (ASX) on major matters
- approving the delegation of powers to the CEO and senior management.

The board's responsibilities are documented in the AMP Limited corporate governance charter, which has been adopted by the board and is available on AMP's website: amp.com.au

Details on the role of the chairman are set out in this statement under ASX Principle 2: Structure the board to add value.

Role of the CEO and management

The CEO is responsible for the overall management and financial performance of the AMP group. The CEO manages the organisation in accordance with the strategy, plans, risk appetite and policies approved by the board. An executive leadership team assists the CEO with implementing the policies and strategies set by the board and running the general operations and financial business of AMP.

Directors decide what matters are delegated to management and seek to ensure that adequate controls are in place to oversee the operation of these delegated powers. The areas of authority which have been delegated to senior executives are documented in a delegations of authority framework, which has been adopted by the board.

Allocation of individual responsibilities

Each non-executive director has been issued with a formal letter of appointment, setting out key terms and conditions and other corporate expectations. Each member of the executive leadership team has clearly defined goals and accountabilities and an employment contract setting out their term of employment, duties, rights and responsibilities and entitlements on termination.

Performance evaluation and induction of executive managers

Performance evaluation process

AMP's remuneration strategy is to align executive rewards with the creation of shareholder value. Performance is assessed using a combination of quantitative and qualitative measures that take into account the performance of the AMP group, business unit, division and individual over the past year. Performance objectives and performance appraisals for executive managers were reviewed by the People and

Remuneration Committee and recommended to the board for approval during 2012. Further information about the process for evaluating the performance of executive managers is set out in the remuneration report. Further details of the People and Remuneration Committee's responsibilities are set out in this statement under ASX Principle 8: Remunerate fairly and responsibly.

Induction

AMP has procedures and courses for the induction of managers, to assist them in participating fully and actively in management decision-making at the earliest opportunity.

ASX Principle 2: Structure the board to add value

Independent directors

Independent decision-making

Directors are entitled to seek independent professional advice on AMP-related matters at AMP's expense. Directors must ensure the costs are reasonable and must advise the chairman before the advice is sought. Any advice received must be made available to the rest of the board unless otherwise agreed by the chairman or the board.

The chairman and other non-executive directors hold meetings from time to time without management present.

It is important that the board operates independently of executive management. During the year, the board reviewed the criteria for director independence set out in Box 2.1 of the ASX Recommendations and concluded that each of the non-executive directors was independent of management. In making its assessment, the board noted that certain AMP Limited directors are also directors or officers of suppliers or customers to the AMP group. The board has noted these directors are not directly involved in the provision of services to AMP and dealings have been at arm's length:

- Peter Mason is a Director of Singapore Telecommunications Limited and Nora Scheinkestel is a Director of Telstra Corporation Limited, both of which provide telecommunications services to AMP
- Peter Mason is the Chairman of David Jones Limited, which currently leases four stores in AMP Capital shopping centres and has entered into agreements to lease three further stores.
- Peter Mason is a senior adviser to UBS Investment Bank, which periodically provides transaction advisory services to AMP
- Paul Fegan is the Chief Financial Officer of Genworth Australia, which provides lenders' mortgage insurance to AMP Bank
- Peter Shergold is a Director of Corrs Chambers Westgarth, which is on AMP's panel of nine preferred law firms for commercial advice.

From time to time, AMP:

- purchases various securities and financial instruments issued by companies in which AMP's directors hold board positions, for the purpose of investing shareholders' funds, unitholders' funds and policyholders' funds
- operates corporate superannuation schemes for employees of companies in which AMP's directors hold board positions.

The board is of the view that these relationships are not material and do not interfere with the exercise of the directors' independent judgement and their ability to act in the best interests of AMP. Materiality for the board's assessment was based on the:

- strategic importance to AMP's business of the services or advice purchased by the AMP group
- nature of the services or advice
- nature and value of the transaction to the AMP group.

Directors are required to monitor and disclose any potential conflict of interest that may arise. Directors must:

- disclose to the chairman any actual or potential conflicts of interest that may exist as soon as the situation arises

(in the case of the chairman, this disclosure would be made to the chairman of the Nomination Committee or to the board, as appropriate)

- take necessary and reasonable steps to resolve any conflict of interest
- comply with the *Corporations Act 2001* requirements about disclosing interests and restrictions on voting.

Potential related party transactions (other than those occurring at arm's length) must be discussed with the chairman, reported in writing to the company secretary and, where appropriate, raised for consideration at the next board meeting. In the meantime, the director concerned should not commit to the transaction.

A list of directors' interests is regularly reviewed by directors as circumstances change. If the board concludes a director has lost their independent status, that conclusion will be disclosed to the market in a timely manner.

Role of the chairman

The chairman is appointed by and from the independent non-executive directors of the board. The chairman's responsibilities include:

- providing appropriate leadership to the board and the AMP group
- facilitating board discussions
- maintaining a regular dialogue and mentor relationship with the CEO
- monitoring board performance
- guiding and promoting the effectiveness of the board and individual directors.

There is a clear division of responsibilities between the chairman and the CEO, which is set out in the AMP Limited corporate governance charter.

Nomination Committee

Membership, attendance and terms of reference

Throughout 2012, the Nomination Committee had the following three independent directors as its members: Nora Scheinkestel (Chairman), Brian Clark and Peter Mason. Attendance records for the committee are shown in the directors' report and a copy of the committee's terms of reference is available on AMP's website.

Responsibilities

The committee supports and advises the board on board matters including policies, performance, remuneration, composition, fitness and propriety of directors and the board (as required by the Australian Prudential Regulation Authority) and succession planning. This includes identifying, evaluating and recommending candidates to the board, having regard to relevant expertise, skills, personal attributes, diversity, current board size, availability and tenure of directors, the requisite business needs and time commitments required. The committee also oversees and recommends to the AMP Limited Board the appointment of non-executive directors to the boards of key operating subsidiaries.

Board selection and competencies

Succession planning is a regular item on the Nomination Committee's agenda. As part of the process of searching for new directors, the committee considers a wide base of potential directors. It identifies, evaluates and recommends candidates to the board, taking into account the range of skills and experience required in relation to the:

- current composition of the board
- need for independence
- desirability of achieving diversity on the board
- strategic direction of the AMP group
- geographic spread and mix of AMP's businesses.

From time to time, the committee uses external consultants to assist in its considerations. The board aims to achieve a mix of skills and diversity, including business experience (in different industries and countries), age, background,

professional expertise or qualifications and gender, while also considering succession for the chairman of the board and the chairmen of board committees. During 2012, the committee engaged an external consultant to conduct a search for new directors of AMP Limited and its key operating subsidiaries. The committee gave the consultant guidance on the attributes that would complement the skills and experience of each entity's current directors. In each case, the committee gave consideration to the diversity of the relevant board in making its recommendations.

Further details on AMP's gender diversity objectives are set out in this statement under ASX Principle 3: Promote ethical and responsible decision-making. Biographical details setting out the skills, experience and expertise of, and period of office held by, each of the directors in office at the date of this statement are set out in the directors' report.

Composition and commitment of the AMP Limited Board

The AMP constitution (which is available on AMP's website) provides that there will be a minimum of three directors and a maximum of 16 directors. As at the date of this statement, the board is made up of nine independent non-executive directors and one executive director, the CEO.

Prior to appointment or re-election, non-executive directors advise the Nomination Committee of their other commitments and confirm they will have sufficient time to meet their expected requirements as an AMP Limited director.

Any proposed non-AMP Limited Board or executive appointments being considered by directors must be discussed with the chairman. Directors must advise AMP of such appointments to other companies as soon as possible after the appointment is made.

Re-appointment of directors

No director (other than the CEO) may hold office for more than three years without being re-elected by shareholders. Re-appointment is not automatic. The board reviews whether retiring directors should stand for re-election, having regard to their contribution to the board. A director appointed by the board to fill a casual vacancy or as an addition to the existing directors will hold office until the next annual general meeting (AGM) when that director is required to stand for election.

A non-executive director can continue to hold office after a nine-year term provided they are re-elected by shareholders at every subsequent AGM.

Board performance

Board performance assessment

Board and director performance reviews are conducted annually and prior to any director standing for re-election at a general meeting of the company. Reviews are conducted either directly or through a third party. During 2012, the chairman facilitated evaluations of the performance of the board and of each director by holding one-on-one meetings with the directors. The board then held discussions about:

- the AMP group as a whole
- the board's role, processes and performance
- the skills and experience of directors individually and the board collectively
- board group dynamics
- any other relevant issues.

During 2012, the chairman of the Nomination Committee led a review of the chairman's performance by holding one-on-one meetings with the other directors.

Performance reviews of the Audit, Nomination and People and Remuneration Committees were conducted in 2012. Questionnaires were completed by committee members and regular meeting attendees, with the results discussed in committee meetings and noted by the board. The boards and the committees of key operating subsidiaries also review their own performance.

Induction and education

The Nomination Committee considers board policies relating to the orientation and education of new directors and the continuing education and development of directors. All directors participate in a formal induction process co-ordinated by the secretariat. Board meetings regularly include sessions on developments in governance, regulatory, accounting and capital management matters. Each non-executive director is allocated an annual budget to spend on education, training and professional development, specific to their professional development needs.

Access to information

Directors are able to access members of senior management to request information. When conducting board business, directors will question, request information, raise any issue of concern to them, canvass fully all aspects of any issue confronting AMP and vote on any resolution according to their own judgement. Directors keep confidential all board discussions, deliberations and decisions except where decisions are required to be disclosed publicly.

Company secretaries

AMP Limited has three appointed company secretaries, whose biographical details and qualifications are set out in the directors' report. The company secretaries are responsible for advising the board on governance matters and facilitating the flow of information between the board and its committees, and between executive managers and directors. All directors have access to the advice and services of the company secretaries, whose appointment and removal are a matter for decision by the board.

ASX Principle 3: Promote ethical and responsible decision-making **Code of conduct**

AMP's reputation as a trusted and respected company is our most valuable asset. The AMP Limited Board has adopted a code of conduct, which was reviewed and updated in 2012. The code outlines the standards of behaviour expected of all directors, officers, employees, contractors and consultants of the AMP group. The code reinforces an already strong ethical culture for the benefit of AMP's shareholders, customers and clients, business partners and advisers, employees and the community. AMP has a whistleblowing policy and processes to support people who report suspected breaches of the code in good faith.

A copy of the code of conduct is provided to all directors and employees on joining AMP and is available on AMP's website.

Diversity policy

AMP is creating a competitive advantage by attracting and retaining diverse talent and leveraging this diverse talent to build a culture that sparks innovative thought, supports robust discussion and through this drives outstanding business results.

In 2010, AMP established a Diversity Advisory Committee to guide its diversity strategy. Throughout 2012, the five members of the committee were Nora Scheinkestel (Chairman), Catherine Brenner, Brian Clark, Peter Shergold and the CEO, Craig Dunn. The committee reviewed and reported on the proportion of women and men across all levels of AMP, annually reviewed the progress made against specific, measurable gender diversity objectives (set by the board on an annual basis) and reviewed the implementation of initiatives to drive the wider diversity agenda. The People and Remuneration Committee took over the responsibilities of the Diversity Advisory Committee from 2013 onwards. Further details on the People and Remuneration Committee are set out in this statement under ASX Principle 8: Remunerate fairly and responsibly.

AMP was one of the founding members of the Diversity Council of Australia, has remained a committed supporter for over 25 years and recently became a key sponsorship partner. In 2012, AMP was again recognised as an employer of choice for women by the Equal Opportunity for Women in the Workplace Agency (EOWA).

AMP's diversity and inclusion policy was updated in 2012 and is available on AMP's website. The policy highlights AMP's commitment to creating an inclusive environment where all employees are encouraged to reach their full potential and where individual differences are valued and respected.

AMP strongly believes that success in leveraging diversity comes from having an integrated framework of practices that support the attraction, development and retention of diverse talent, and a culture of inclusion. To foster an inclusive culture:

- senior leaders at AMP attend cultural development programs, to help encourage a culture that accepts and leverages difference of opinion and raise leaders' awareness of unconscious bias.
- AMP has a formal career development program for both men and women, to foster key talent in the organisation, provide networking opportunities and showcase strong role models. This helps build a stronger and deeper team of women (and men) who have the potential, skills, experience and desire to move to the senior leadership levels of the business.
- AMP helps employees manage their work and home commitments by providing employees 14 weeks paid parental leave, a formal program to keep parents connected to the business while on parental leave, a sponsored child care centre in Sydney, onsite carers' rooms, flexible work arrangements and a leave purchase scheme. Building awareness and acceptance of the benefits and viability of flexible work arrangements for both men and women will continue to be a priority in 2013.

AMP recognises that although the group has taken some steps to increase gender diversity, this is an area of continuous improvement for our organisation.

Gender diversity objectives and reporting

AMP set gender diversity objectives in 2010, including specific targets for the representation of women in middle management and senior executive positions and on the board. The gender diversity objectives were first published in the 2011 annual report. The top two per cent of the workforce were included in the senior executives band and the next most senior 30 per cent of the workforce were included in the middle management band.

Following a review of market practice AMP has adjusted which roles are included in the middle management and senior executive bands. This change has been made to ensure AMP can appropriately benchmark its gender diversity data against the data reported by other listed companies. Based on these new bands, the top eight per cent and the next most senior 23 per cent of the total AMP workforce are considered to be in senior executive and middle management roles, respectively.

If AMP had continued to report on the basis of the previous bands, at 31 December 2012, 21 per cent of senior executives and 37 per cent of middle management positions would have been held by women.

ASX Principle 4: Safeguard integrity in financial reporting Audit Committee

Membership, attendance and terms of reference

Throughout 2012, the Audit Committee had the following three independent directors as its members: Paul Fegan (Chairman), Rick Allert and Peter Shergold. Paul Fegan has over 30 years experience in the financial services industry, Rick Allert is a chartered accountant and all members have appropriate financial expertise. The chairman of the committee is not the chairman of the board. Attendance records for the committee are shown in the directors' report and a copy of the committee's terms of reference is available on AMP's website.

Responsibilities

The primary function of the Audit Committee is to assist the board to discharge its corporate governance responsibilities in regard to the:

- integrity and appropriateness of the financial statements and related external financial communications
- oversight of the enterprise risk management framework including compliance and internal controls
- performance and independence of the internal audit function and the external auditor
- adequacy of the AMP group's insurance program, including directors' and officers' professional indemnity insurance cover.

The AMP Limited chairman and CEO attend committee meetings where appropriate. The chairman of the committee reports on any matters of substance at the next full board meeting and the minutes of committee meetings are provided to the board. The committee regularly holds private sessions with internal and external auditors, without management present.

Further details on the committee's role in reviewing risk management and internal control systems are set out in this statement under ASX Principle 7: Recognise and manage risk.

Internal auditors

The committee is responsible for assessing whether the internal audit function is independent of management and adequately resourced, and for reviewing and approving the appointment or replacement of the head of internal audit, in consultation with the CEO. AMP has an internal audit charter which is approved by the committee. As required by the internal audit charter, the head of internal audit maintains an internal quality assurance and improvement program. There is also an external quality assessment of the internal audit function on a periodic basis.

Further details about the role of internal audit are set out in this statement under ASX Principle 7: Recognise and manage risk.

External auditors

The independence of the external auditor is of particular importance to shareholders and the board. The board has adopted a charter of audit independence, which covers the following key points:

- the rotation of the senior audit partner
- the annual confirmation by the auditor that it has satisfied all professional regulations relating to auditor independence

Representation of women in roles against 2015 targets

Roles	2015 objectives for the representation of women in roles	31 December 2012 ¹	31 December 2011 ^{1,2}
AMP Limited Board	30%	30%	30%
Senior executives	35%	31%	27%
Middle management	43%	38%	39%
All employees	n/a	51%	54%

1 All figures include both full-time and part-time positions.

2 2011 figures have been restated based on the new bandings.

- reporting on the levels of audit and non-audit fees
- the specific exclusion of the audit firm from work which may give rise to a conflict.

AMP requires the external auditor to rotate the lead and independent review audit partners in accordance with the *Corporations Act 2001*, and have suitable succession planning in place to ensure consistency for AMP. During 2012, on the committee's recommendation, the board resolved to approve an extension in the tenure of AMP's lead audit partner, to permit his involvement in the audit for a sixth successive financial year. Details of the reasons for the committee's recommendation are set out in the directors' report.

The committee receives a quarterly report, detailing the level of audit and non-audit financial service fees paid to the external auditor, and each half year, reviews and reports to the board on the independence of the external auditor. Details of fees paid or payable for non-audit services during 2012 are set out in the directors' report.

The committee is responsible for reviewing the performance of the external auditor and for recommending to the board the terms of engagement and fees of external auditors for AMP and its group companies. A performance evaluation of Ernst & Young was conducted during 2012 using the results from a questionnaire which was completed by committee members and regular meeting attendees.

If it becomes necessary to replace the external auditor for independence or performance reasons then the committee will formalise a procedure for the selection and appointment of the new auditor and make a recommendation to the board.

ASX Principle 5: Make timely and balanced disclosure

Continuous disclosure policy

AMP is committed to ensuring that all shareholders and the market are provided with timely and balanced disclosure of all material matters concerning AMP. This commitment to continuous disclosure is set out in AMP's market disclosure policy, which is available on AMP's website. The guiding principle of the policy is that AMP must immediately notify the market via an announcement to the ASX of any information concerning AMP that a reasonable person would expect to have a 'material' effect on the price or value of AMP securities. The policy permits exceptions to immediate notification in accordance with the ASX Listing Rules.

AMP's Market Disclosure Committee ensures that company announcements:

- are made in a timely manner
- are factual
- are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions
- do not omit material information.

AMP provides commentary on its financial results in an annual shareholder review and produces an investor report for each full year and half year. AMP makes presentations of the full and half year results to the investment community immediately after the public release of those results.

The board will review and update AMP's market disclosure policy in 2013, to address expected updated ASX guidance on continuous disclosure.

ASX Principle 6: Respect the rights of shareholders

Communications policy

AMP is committed to transparency and quality in its communication to shareholders. The group's approach to communicating with shareholders and financial markets is set out in AMP's market disclosure policy, which is available on AMP's website. Information is communicated to shareholders through the distribution of the annual report, shareholder review and other communications as required.

Electronic communication

Annual reports, shareholder reviews, notices of meeting and all other significant information is posted in the shareholder centre section of AMP's website as soon as it is disclosed to the ASX. Presentations of full and half year results are webcast and the presentation materials are uploaded to the website. Shareholders can elect to receive all communications electronically or elect not to receive some communication materials by visiting amp.com.au/shareholdercentre or by contacting AMP's share registry. Beneficial owners of shares and other members of the public are encouraged to register for free email alerts on AMP's website.

Annual general meeting

All shareholders are encouraged to attend and/or participate in AMP's AGM. The meeting is webcast live or shareholders can attend in person or send a proxy as their representative. Online completion and lodgement of the proxy form is also available for all shareholders prior to the meeting. In 2012, AMP became one of the first Australian companies to offer shareholders the option of appointing proxies through their smartphone, using a specially designed website.

Directors and senior management attend the AGM, along with a representative from the external auditor. Full details of the 2013 AGM are included in the 2013 notice of meeting and are available on the shareholder section of AMP's website.

Briefings

AMP follows a calendar of regular disclosures to the ASX on its financial and operational results. The calendar is on the shareholder section of AMP's website and allows users to set up automatic diary reminders of the dates of upcoming announcements and presentations.

AMP conducts group and one-on-one briefings in accordance with its market disclosure policy. Briefings are coordinated and attended by AMP Investor Relations. Where practical, AMP webcasts group briefings. Notes of briefings and a record of those present are retained by Investor Relations.

ASX Principle 7: Recognise and manage risk

Enterprise risk management policy

Enterprise risk management framework

The AMP Limited Board has overall responsibility for establishing a system of risk management, internal controls and compliance across the business and for monitoring and reviewing its effectiveness. It also has responsibility for approving the risk appetite of the AMP group and the risk management related policies to support that appetite, and seeking to ensure these are implemented. A summary of the enterprise risk management policy, which sets out the principles, processes, roles and responsibilities for the management of risk at AMP, is available on AMP's website.

While the board is responsible for risk management, specific responsibility for the monitoring and evaluation of the effectiveness of risk management and the internal control environment has been delegated to the Audit Committee. The Audit Committee also oversees AMP's accounting policies, reporting practices and production of financial statements and monitors the application of appropriate management controls. It considers internal and external audit reports and reviews AMP's procedures and internal controls in order to monitor enterprise-wide risks. Risk and compliance processes and reporting procedures provide assurance to the board and Audit Committee that the preparation of the financial statements and the control systems underlying them are adequate.

Compliance is a key element of risk management. The board has overall responsibility for the establishment of processes to manage compliance with the laws, regulations, contracts, industry codes, internal standards and policies applicable to AMP's operations and for monitoring and reviewing their effectiveness.

While the board is responsible for AMP's compliance framework, specific responsibility for the monitoring of compliance has been delegated to the Audit Committee. The Audit Committee oversees the system of compliance that has been implemented across AMP's businesses. The system covers a broad range of legal requirements, duties and responsibilities. Any compliance issues or incidents are reported quarterly to the Audit Committee, or more urgently if required.

As required by the *Corporations Act 2001*, AMP's Australian financial services' licensed entities have adopted individually-tailored conflict of interest policies.

Material business risks

Management engages in a regular process to review risks and how they are being managed. AMP manages risks across the following four main risk categories:

- strategic risk
- operational risk (including compliance risk)
- financial risk
- product and insurance risk.

Management of material business risks

Risk management structures

The Audit Committee is supported by the risk management structures which exist throughout the organisation, including the Group Asset and Liability Committee, the Group Risk and Compliance Committee and business unit risk committees. The Audit Committee relies on the work of the Audit Committees of key operating subsidiaries on risk and compliance matters relating to those subsidiaries. The enterprise risk management framework enables the business to identify and assess risks and controls, respond promptly and appropriately and continue to monitor risks and issues as they evolve. Risk and compliance information is reported quarterly to the Audit Committee, or more regularly if required.

AMP's risk management structures and procedures are continually being enhanced or updated. In addition, the internal audit function provides independent and objective assurance to the board that risks are being managed effectively across the group.

Management has reported to the board that AMP's material business risks have been managed effectively for the year ended 31 December 2012. The board has assessed and accepted that report.

The enhancement of the risk management and internal control systems is the subject of ongoing attention and effort. Where internal control deficiencies are identified during the year, additional tests of procedures or tests of resulting account balances included in the financial statements are undertaken to confirm there has been no material impact on the financial statements.

Internal audit

AMP's internal audit function provides the board and executive management with an independent and objective evaluation of the adequacy and effectiveness of management's control over risk. The internal audit function conducts audits for AMP Limited and its subsidiaries by following a risk-based planning approach. The head of internal audit has a functional reporting line to the chairman of the Audit Committee. Further information about the internal audit function is set out in this statement under ASX Principle 4: Safeguard integrity in financial reporting.

CEO and CFO assurance

The board receives regular reports about the financial condition and operational results of AMP and its controlled entities. The board has received and considered the annual certification from the CEO and the CFO in accordance with ASX Recommendation 7.3. The certification states that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

ASX Principle 8: Remunerate fairly and responsibly

People and Remuneration Committee

Membership, attendance and terms of reference

Throughout 2012, the People and Remuneration Committee had the following four independent directors as its members: John Palmer (Chairman), Patty Akopiantz, Brian Clark and Peter Mason. Attendance records for the committee are shown in the directors' report and a copy of the committee's terms of reference is available on AMP's website.

Responsibilities

The committee advises the board on the effectiveness, integrity and legal compliance of AMP's remuneration policy, plans and practices. Each year the committee also reviews and reports on remuneration by gender. Other key responsibilities include annually reviewing and recommending to the board the succession planning and talent management approach. The committee also reviews the AMP group short-term incentive pools, the total remuneration package, performance objectives and performance appraisal for the CEO, direct reports of the CEO and other persons whose individual activities may, in the committee's opinion, affect the financial soundness of the AMP group and its key operating subsidiaries. During 2012, performance evaluations for key executives were carried out in accordance with the process disclosed in the 2012 remuneration report. The committee has access to advice on remuneration policies from management, but no individual is directly involved in deciding their own remuneration. The committee also engages external consultants as and when required to assist it in fulfilling its responsibilities.

Remuneration policy

Comprehensive information on AMP's remuneration policies and practices is contained in the remuneration report.

AMP uses a variety of equity-based remuneration arrangements to align employee interests with shareholders' long-term interests and aid in the retention of selected individuals. AMP's policy on hedging of equity incentives prohibits employees from using any hedging arrangements over the restricted shares, share rights, share bonus rights, options or performance rights held by employees in any of AMP's equity incentive plans. The purpose of the policy is to ensure that the alignment between employee and shareholder interests is not undermined by the use of hedging arrangements.

Non-executive directors' and executives' remuneration

There is a clear distinction between the remuneration structure for non-executive directors and executives. Further information is available in the remuneration report.

The Nomination Committee is responsible for reviewing the remuneration policies for non-executive directors on the AMP Limited Board and on boards of key operating subsidiaries. The non-executive directors do not receive options, bonus payments or retirement benefits, other than superannuation.

Details of the termination entitlements of AMP's key management personnel are set out in the remuneration report. AMP also disclosed details of Craig Dunn's termination entitlements to the ASX on announcing his appointment as Chief Executive Officer, in September 2007.

Comparison of NZX and ASX corporate governance rules

As an overseas listed issuer, AMP is deemed to satisfy and comply with all the New Zealand Stock Exchange (NZX) Listing Rules so long as it remains listed on the ASX. The only NZX requirements applicable to AMP are to give the NZX the same information and notices it is required to give to the ASX and to include a statement (referred to below) in its annual report.

The ASX Listing Rules and the ASX Recommendations may materially differ from NZX's corporate governance rules and the principles of the NZX Corporate Governance Best Practice Code.

Further information about the ASX Corporate Governance Principles and Recommendations (ASX Recommendations) may be obtained from the ASX website: asx.com.au/professionals/listed-companies-information.htm

Corporate responsibility at AMP

Founded in 1849, AMP has played a substantial role in shaping modern Australia and New Zealand by helping millions of customers build financial security, providing protection for families and financing property and infrastructure.

AMP contributes to the long-term sustainability of its business and the communities that it serves by using its expertise to:

- help customers build superannuation and investments
- minimise AMP's environmental impact
- encourage good corporate governance
- invest in the communities where it operates.

Helping customers build superannuation and investments for tomorrow

AMP provides customers with the financial advice, products and services they need to build and protect superannuation and investments for the future.

AMP also helps to educate the community on the importance of good financial management through online tools, research into financial issues facing the community and participation in public conversations. AMP shares its experience and insights with the government and local community to encourage the provision of incentives for long-term superannuation and investments within efficient and competitive financial services markets and an informed community.

Minimising AMP's environmental impact

AMP is committed to finding ways to enable the company's resource efficiency and reduce its environmental impact.

The AMP environment policy guides improvements in direct environmental impacts including the use of energy, water, paper and other materials. It also outlines environmental considerations in purchasing decisions and product design. A copy of the policy is available on AMP's website.

Environmental programs and initiatives are coordinated by the Environment Leadership team which is chaired by the managing director of AMP Capital. The team has established targets and strategies for reducing carbon emissions and improving waste management practices.

The AMP Green Tomorrow initiative and a network of green champions help raise environmental awareness within the business and engage employees in adopting approaches that contribute toward improving environmental performance. Over the past three years, AMP has introduced programs to increase waste recycling and reduce office-based energy use. These include:

- waste management strategies for major tenancies
- upgrading building control management systems
- an automatic PC shutdown system
- maximising server efficiency to minimise energy usage
- installing low energy lighting and roof top signage
- using automatic sensor-controlled lighting in meeting rooms
- providing additional video conferencing facilities to reduce air travel.

A carbon offset program helps to further reduce greenhouse gas emissions. This includes the purchase of greenhouse gas emission reductions from a portfolio of projects that meet international verification standards.

In 2012, AMP sought to reduce or offset carbon emissions from its tenanted sites and business air travel by 50 per cent.

With an estimated annual carbon footprint of approximately 38,000 tonnes, AMP purchased over 39,000 tonnes of carbon offsets. AMP reports annually to the Australian Government Department of Resources, Energy and Tourism and the Department of Climate Change and Energy Efficiency on compliance with the *Energy Efficiency Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007*. AMP reports on environmental performance at an AMP Limited level, with AMP Capital making up a core component of the reporting through its property and infrastructure divisions. During 2012, AMP Capital remained an active member of the Investor Group on Climate Change and a signatory to the Carbon Disclosure Project.

AMP's 2012 report on energy efficiency opportunities and further information on AMP's environmental activities and Carbon Disclosure Project submission are available on AMP's website.

Encouraging good corporate governance

AMP Capital is one of the longest standing managers of responsible investment funds in Australia. As an investor in companies and assets on behalf of clients, AMP Capital recognises the strong link between an organisation's environmental and social impacts, the quality of its corporate governance, and its long-term business success.

As a signatory to the Principles for Responsible Investment since 2007, AMP Capital is committed to integrating environmental, social and corporate governance factors into its investment decision-making and active ownership practices, across all asset classes.

This is achieved through integrating investment guidelines and policies, investment research and analysis and engaging with investee boards and management teams on their corporate governance practices, environmental performance and relationship with society as a whole. AMP Capital also engages with boards and management teams on issues such as executive remuneration, board composition and risk management, and lodges considered proxy votes on all resolutions.

Further information on AMP Capital's environmental, social, governance and responsible investment philosophy and activities is available at ampcapital.com.au/esg

Investing in the community

AMP has a tradition of supporting the community. In 1992, AMP set up the AMP Foundation taking a strategic approach to philanthropy by forming long-term community partnerships. Since then, the AMP Foundation has donated more than \$66 million to the community. In 2012, the AMP Foundation donated more than \$6 million to charities by funding education and employment programs for disadvantaged young people (focusing on indigenous students), supporting the non-profit sector to operate more effectively and facilitating the volunteering and fundraising efforts of AMP employees. In 2012, AMP employees raised more than \$700,000 for charity and also volunteered their time and skills with numerous charities. Further information on the AMP Foundation's activities can be found at amp.com.au/ampfoundation

AMP financial planners provide free financial planning advice to cancer patients and their families through an AMP Foundation-funded program with the Cancer Council.

Financial report

for the year ended 31 December 2012

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Income statement

for the year ended 31 December 2012

	Note	Consolidated		Parent	
		2012 \$m	2011 \$m	2012 \$m	2011 \$m
Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests¹					
Life insurance premium and related revenue	4	2,218	1,877	–	–
Fee revenue	4	2,268	1,962	12	16
Other revenue	4	312	380	–	–
Investment gains and (losses)	5	12,084	1,464	297	283
Life insurance claims and related expenses	6	(2,048)	(1,790)	–	–
Operating expenses	6	(3,824)	(3,425)	(13)	(16)
Finance costs	6	(817)	(917)	–	–
Share of profit or (loss) of associates accounted for using the equity method	29	5	4	–	–
Movement in external unitholder liabilities		(880)	225	–	–
Change in policyholder liabilities					
– life insurance contracts	20	(934)	25	–	–
– investment contracts		(7,000)	868	–	–
Income tax (expense) credit	7	(697)	3	5	69
Profit for the year		687	676	301	352
Profit attributable to shareholders of AMP Limited		704	688	301	352
Profit (loss) attributable to non-controlling interests		(17)	(12)	–	–
Profit for the year		687	676	301	352

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

	Consolidated	
	2012 cents	2011 cents
Earnings per share for profit attributable to ordinary shareholders of AMP Limited		
Basic	24.7	26.3
Diluted	24.6	26.2

Statement of comprehensive income

for the year ended 31 December 2012

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Profit	687	676	301	352
Other comprehensive income recognised in retained earnings				
Defined benefit plans ¹				
– actuarial gains and (losses)	53	(177)	–	–
– income tax (expense) credit	(16)	53	–	–
	37	(124)	–	–
Other comprehensive income recognised in reserves				
Cash flow hedges ²				
– gains and (losses) in fair value of cash flow hedges	(44)	(34)	–	–
– income tax (expense) credit	13	11	–	–
– transferred to profit for the year	20	16	–	–
– transferred to profit for the year – income tax (expense) credit	(6)	(5)	–	–
	(17)	(12)	–	–
Owner-occupied property revaluation				
– gains (losses) in valuation of owner-occupied property	12	9	–	–
– income tax (expense) credit	(1)	(1)	–	–
	11	8	–	–
Exchange difference on translation of foreign operations				
– exchange gains (losses)	30	3	–	–
– income tax (expense) credit	–	–	–	–
– transferred to profit for the year	3	2	–	–
– transferred to profit for the year – income tax (expense) credit	(1)	–	–	–
	32	5	–	–
Revaluation of hedge of net investments				
– gains and (losses) in fair value of hedge of net investments	(1)	3	–	–
– income tax (expense) credit	–	–	–	–
– transferred to profit for the year – gross	(3)	–	–	–
– transferred to profit for the year – income tax (expense) credit	1	–	–	–
	(3)	3	–	–
Total comprehensive income for the year	747	556	301	352
Total comprehensive income attributable to shareholders of AMP Limited	764	568	301	352
Total comprehensive income (loss) attributable to non-controlling interests	(17)	(12)	–	–
Total comprehensive income for the year	747	556	301	352

1 Actuarial gains and (losses) are determined in accordance with AASB 119 *Employee Benefits*. This is not the same as the calculation methods used to determine the funding requirements for the plans.

2 Cash flow hedge movements are predominantly in respect of interest rate swaps used to manage AMP Bank's interest rate risk on its mortgage portfolio.

Statement of financial position

as at 31 December 2012

	Note	Consolidated		Parent	
		2012 \$m	2011 \$m	2012 \$m	2011 \$m
Assets					
Cash and cash equivalents		4,207	4,652	1	1
Receivables	8	2,043	2,221	59	3
Current tax assets		22	248	–	–
Inventories and other assets	9	201	276	–	–
Investments in financial assets measured at fair value through profit or loss	10	85,373	76,528	–	–
Investments in financial assets measured at amortised cost	10	14,301	12,905	620	767
Investment properties	11	6,508	7,424	–	–
Investments in associates accounted for using the equity method	29	81	115	–	–
Property, plant and equipment	12	468	479	–	–
Deferred tax assets	7	1,185	1,095	65	333
Intangibles	13	4,175	4,347	–	–
Investments in controlled entities		–	–	10,807	10,807
Assets of disposal groups	28	187	–	–	–
Total assets of shareholders of AMP Limited, policyholders, external unitholders and non-controlling interests		118,751	110,290	11,552	11,911
Liabilities					
Payables	14	1,868	1,932	35	98
Current tax liabilities		82	86	27	180
Provisions	15	578	556	3	3
Other financial liabilities	10	2,317	2,604	–	–
Borrowings	16	11,382	11,410	–	–
Subordinated debt	17	1,111	949	–	–
Deferred tax liabilities	7	1,392	923	–	–
External unitholder liabilities		8,690	7,224	–	–
Life insurance contract liabilities	20	25,055	24,399	–	–
Investment contract liabilities	21	58,385	52,940	–	–
Defined benefit plan liabilities	26	286	370	–	–
Liabilities of disposal groups	28	74	–	–	–
Total liabilities of shareholders of AMP Limited, policyholders, external unitholders and non-controlling interests		111,220	103,393	65	281
Net assets of shareholders of AMP Limited and non-controlling interests		7,531	6,897	11,487	11,630
Equity¹					
Contributed equity	19	9,339	9,080	9,610	9,297
Reserves		(2,156)	(2,534)	15	10
Retained earnings		251	283	1,862	2,323
Total equity of shareholders of AMP Limited		7,434	6,829	11,487	11,630
Non-controlling interests		97	68	–	–
Total equity of shareholders of AMP Limited and non-controlling interests		7,531	6,897	11,487	11,630

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

Statement of changes in equity

for the year ended 31 December 2012

Consolidated	Equity attributable to shareholders of AMP Limited											Non-controlling interest \$m	Total equity \$m	
	Contributed equity \$m	Equity contribution reserve ¹ \$m	Share-based payment reserve ² \$m	Cash flow hedge reserve ³ \$m	Owner-occupied property revaluation reserve ⁴ \$m	Foreign currency translation reserve ⁵ \$m	Hedge of net investment reserve ⁶ \$m	Capital profits reserve ⁷ \$m	Demerger loss reserve ⁸ \$m	Retained earnings \$m	Total shareholder equity \$m			
2012														
Balance at the beginning of the year	9,080	1,019	35	(17)	74	(64)	4	–	(3,585)	283	6,829	68	6,897	
Profit (loss)	–	–	–	–	–	–	–	–	–	704	704	(17)	687	
Other comprehensive income	–	–	–	(17)	11	32	(3)	–	–	37	60	–	60	
Total comprehensive income	–	–	–	(17)	11	32	(3)	–	–	741	764	(17)	747	
Share-based payment expense	–	–	27	–	–	–	–	–	–	–	27	–	27	
Share purchases	–	–	(1)	–	–	–	–	–	–	–	(1)	–	(1)	
Net sale/(purchase) of 'treasury shares'	(54)	–	–	–	–	–	–	–	–	(23)	(77)	–	(77)	
Dividends paid ⁹	–	–	–	–	–	–	–	–	–	(762)	(762)	(5)	(767)	
Dividends paid on 'treasury shares' ⁹	–	–	–	–	–	–	–	–	–	12	12	–	12	
New capital from shares issued ¹⁰	313	–	–	–	–	–	–	–	–	–	313	–	313	
Sales and acquisitions of non-controlling interest ⁷	–	–	–	–	–	–	–	329	–	–	329	51	380	
Balance at the end of the year	9,339	1,019	61	(34)	85	(32)	1	329	(3,585)	251	7,434	97	7,531	
2011														
Balance at the beginning of the year	5,051	1,019	8	(5)	66	(69)	1	–	(3,585)	452	2,938	60	2,998	
Profit (loss)	–	–	–	–	–	–	–	–	–	688	688	(12)	676	
Other comprehensive income	–	–	–	(12)	8	5	3	–	–	(124)	(120)	–	(120)	
Total comprehensive income	–	–	–	(12)	8	5	3	–	–	564	568	(12)	556	
Share-based payment expense	–	–	28	–	–	–	–	–	–	–	28	–	28	
Share purchases	–	–	(1)	–	–	–	–	–	–	–	(1)	–	(1)	
Net sale/(purchase) of 'treasury shares'	(59)	–	–	–	–	–	–	–	–	(8)	(67)	–	(67)	
Dividends paid ⁹	–	–	–	–	–	–	–	–	–	(736)	(736)	–	(736)	
Dividends paid on 'treasury shares' ⁹	–	–	–	–	–	–	–	–	–	11	11	–	11	
New capital from shares issued ¹⁰	4,088	–	–	–	–	–	–	–	–	–	4,088	–	4,088	
Sales and acquisitions of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	20	20	
Balance at the end of the year	9,080	1,019	35	(17)	74	(64)	4	–	(3,585)	283	6,829	68	6,897	

Footnotes 1 to 10 are listed over the page.

Statement of changes in equity
for the year ended 31 December 2012 continued

AMP Limited parent	Contributed equity \$m	Share-based payment reserve ² \$m	Retained earnings \$m	Total shareholder equity \$m
2012				
Balance at the beginning of the year	9,297	10	2,323	11,630
Profit	–	–	301	301
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	301	301
Share-based payment expense	–	5	–	5
Share purchases	–	–	–	–
Loss on sale of 'treasury shares' recognised directly in retained earnings	–	–	–	–
Dividends paid ⁹	–	–	(762)	(762)
New capital from shares issued ¹⁰	313	–	–	313
Balance at the end of the year	9,610	15	1,862	11,487
2011				
Balance at the beginning of the year	5,209	6	2,707	7,922
Profit	–	–	352	352
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	352	352
Share-based payment expense	–	4	–	4
Dividends paid ⁹	–	–	(736)	(736)
New capital from shares issued ¹⁰	4,088	–	–	4,088
Balance at the end of the year	9,297	10	2,323	11,630

- 1 There has been no movement in the Equity contribution reserve established in 2003 to recognise the additional loss on the demerger of AMP's UK operations in December 2003. This loss was the difference between the pro-forma loss on demerger (based upon directors' valuation of the UK operations and the estimated net assets to be demerged) and the market-based fair value of the UK operations (based upon the share price of the restructured UK operations on listing and the actual net assets of the UK operations on demerger).
- 2 The Share-based payment reserve represents the cumulative expense recognised in relation to equity settled share-based payments less the cost of shares purchased and transferred to share-based payments recipients upon vesting.
- 3 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.
- 4 The Owner-occupied property revaluation reserve represents cumulative valuation gains and losses on owner-occupied property required to be recognised in equity.
- 5 Exchange differences arising on translation of foreign controlled entities within the AMP group are recognised in Foreign currency translation reserve. Exchange gains and losses are transferred to the Income statement upon realisation of the investment in the foreign controlled entity.
- 6 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.
- 7 The capital profits reserve represents gains attributable to shareholders of AMP on the sale of minority interests in controlled entities to entities outside the AMP group.
- 8 There has been no movement in the Demerger loss reserve established in 2003 to recognise the transfer from shareholders' retained earnings of the total loss on the demerger of AMP's UK operations in December 2003.
- 9 Dividends paid includes the dividends paid on 'treasury shares'. Dividends paid on 'treasury shares' are required to be excluded from the consolidated financial statements by adjusting retained earnings.
- 10 New capital from shares issued includes shares issued under dividend reinvestment plan \$313m (2011: \$286m) and in 2011, shares issued to minority shareholders of AMP AAPH Limited (formerly AXA Asia Pacific Holdings Limited) on the acquisition of the company \$3,802m.

Statement of cash flows

for the year ended 31 December 2012

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Cash flows from operating activities¹				
Cash receipts in the course of operations	18,135	16,295	9	17
Interest and other items of a similar nature received	2,391	2,595	2	3
Dividends and distributions received ²	996	329	295	280
Cash payments in the course of operations	(19,689)	(17,225)	–	–
Finance costs	(749)	(850)	–	–
Income tax refunded/(paid)	(151)	(333)	(4)	13
Cash flows from operating activities	933	811	302	313
Cash flows from investing activities¹				
Net proceeds from sale of/(payments to acquire):				
– investment property	989	(64)	–	–
– investments in financial assets ^{1,3}	(2,054)	(1,847)	–	–
– operating and intangible assets	(175)	–	–	–
Acquisition of AMP AAPH Limited ⁴	–	1,673	–	–
Payments to acquire other subsidiaries and other businesses ⁵	(14)	–	–	–
Loan to controlled entities	–	–	147	205
Payments to option holders in AMP AAPH Limited	–	–	–	(69)
Cash flows from (used in) investing activities	(1,254)	(238)	147	136
Cash flows from financing activities¹				
Proceeds from borrowings – non-banking operations	500	931	–	–
Net movement in deposits from customers	416	1,189	–	–
Repayment of borrowings – non-banking operations	(984)	(1,221)	–	–
Net movement in borrowings – banking operations	(30)	(370)	–	–
Proceeds from issue of subordinated debt	150	600	–	–
Proceeds from the sale of 15% of AMP Capital Holdings Limited	425	–	–	–
Dividends paid ⁶	(437)	(440)	(449)	(450)
Cash flows from (used in) financing activities	40	689	(449)	(450)
Net increase (decrease) in cash and cash equivalents	(281)	1,262	–	(1)
Cash and cash equivalents at the beginning of the period	9,436	8,168	1	2
Effect of exchange rate changes on cash and cash equivalents	16	6	–	–
Cash and cash equivalents at the end of the period¹	9,171	9,436	1	1

- Cash flows and cash and cash equivalents include amounts attributable to shareholders' interests, policyholders' interests in AMP life insurance entities' statutory funds and controlled entities of those statutory funds, external unitholders' interests and non-controlling interests. Amounts included in respect of AMP life insurance entities' statutory funds and controlled entities of those statutory funds have a substantial impact on cash flows from operating activities and investing activities and proceeds from and repayments of borrowing – non-banking operations, and cash and cash equivalents balances.
- Dividends and distributions received are amounts of cash received mainly from investments held by AMP life insurance entities' statutory funds and controlled entities of those statutory funds. Dividends and distributions reinvested have been treated as non-cash items.
- Net proceeds from sale of/(payment to acquire) investments in financial assets includes loans and advances made (net of payments) and purchases of financial assets (net of maturities) during the period by AMP Bank.
- The net cash flows in 2011 from the acquisition of AMP AAPH Limited comprise \$2,164m cash and cash equivalents held by AMP AAPH group at acquisition date less cash consideration paid of \$491m. The cash consideration paid consists of \$455m for AMP's share of the cash paid to minority shareholders, \$69m paid to options holders less \$33m adjustment payments received from AXA SA prior to reporting date. A further \$1,970m of cash consideration paid to minority shareholders was funded by AXA SA.
- Payments to acquire other subsidiaries and other businesses (net of cash acquired) did not have a material impact on the composition of the AMP group.
- The dividends paid amount is presented net of dividend reinvestment plan and dividends on 'treasury shares'. See Statement of changes in equity for further information.

Notes to the financial statements

for the year ended 31 December 2012

1. Basis of preparation and summary of significant accounting policies

The consolidated economic entity (the AMP group) comprises AMP 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.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. AMP group is a for-profit entity for the purposes of preparing financial statements. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the current year and comparative period, unless otherwise stated. Where necessary, comparative information has been reclassified to be consistent with current period disclosure.

The AMP group is predominantly a wealth-management business conducting operations through registered life insurance companies (AMP life insurance entities) and other entities. Where permitted under accounting standards, the assets and liabilities associated with life insurance contracts and investment contracts are generally measured on a fair value basis and other assets and liabilities are generally measured on a historical cost basis.

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of the AMP 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 of amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

Changes in accounting policy

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

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

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

Australian Accounting Standards issued but not yet effective

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

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, revised AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*. These standards change the criteria for determining which entities are to be consolidated and which entities are to be accounted for using the equity method in preparing consolidated accounts and the required disclosures in relation to such entities. Each of these standards is mandatory for adoption by the AMP group in the year ending 31 December 2013.

There is ongoing industry discussion as to the interpretation and application of the requirements of AASB 10, including consideration by the AASB of the section of AASB 1038 *Life insurance contracts* which may impact the application of AASB 10 to life insurers. Finalisation of these matters may result in changes to the impact described below. Until these matters are finalised and a full consolidation is performed, it is not possible to determine precisely the effects of adopting AASB 10 on the AMP group.

The AMP group has reviewed all entities within the AMP group which are less than 100 per cent owned. This review was completed, based on current expectations of the interpretation and application of AASB 10, and has determined that the following additional entities would be controlled by the AMP group on adoption of AASB 10:

- AMP Capital Strategic Infrastructure Trust of Europe No 1, No 2, No 3 and No 4
- Aged Care Trust No 1 & No 2
- AMP Capital Infrastructure Equity Fund
- AMP Capital China Growth Fund
- AMP Foundation Trust
- AMP Foundation Income Beneficiary Pty Ltd.

Had the AMP Foundation Trust and AMP Foundation Income Beneficiary Pty Ltd (AMP Foundation entities) been consolidated from 1 January 2012 the impact on the income statement for 2012 would have been an increase of \$5m to profit and a corresponding \$5m increase to profit attributable to non-controlling interests. There would have been no impact to profit attributable to the shareholders of AMP Limited.

Each of the other entities listed above are currently accounted for as associates measured at fair value through profit or loss. Quantitative data for these entities is set out in note 29(b).

These entities will be consolidated into the results of the AMP group from 1 January 2013 with retrospective adjustments for 2012. Accordingly, the AMP group will no longer recognise these entities at fair value and it will now recognise 100 per cent of these entities' revenues, expenses, assets, liabilities and cash flows. Also, a liability to external unitholders and a non-controlling interest will be recognised.

Other than for the AMP Foundation entities, investments in these entities are held on behalf of policyholders and the AMP life entities' statutory funds recognise a liability to the policyholders. In certain cases, the amount of the net assets

1. Basis of preparation and summary of significant accounting policies continued

of the controlled entities recognised in the consolidated financial statements may not match the valuation of the relevant liability to the policyholder which results in certain policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

- AASB 13 *Fair Value Measurement*. This standard centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards and removes some minor inconsistencies that previously existed between the guidance for determining fair value in these standards. The new standard requires quantitative and qualitative disclosures of all fair value measurements. AASB 13 is mandatory for adoption by the AMP group in the year ending 31 December 2013. The financial impact on the AMP group of adopting AASB 13 is not expected to be material.
- Revised AASB 119 *Employee Benefits*. Under the current AASB 119, an amount is recognised in profit or loss for the expected earnings on the assets of defined benefit funds, with any difference between the expected return and the actual return taken directly to equity. Under the revised AASB 119, the amount recognised in profit or loss will be determined using a risk-free rate rather than expected earnings. The revised AASB 119 is mandatory for adoption by the AMP group in the year ending 31 December 2013. The financial impact on the AMP group of adopting the revised AASB 119 is not expected to be material.
- Revised AASB 101 *Presentation of Financial Statements*. The revised AASB 101 requires items in the Statement of comprehensive income to be segregated between those that will be eventually realised in the Income statement in future periods and those that will not. The revised AASB 101 is mandatory for adoption by the AMP group in the year ending 31 December 2013. The changes to AASB 101 relate to presentation only and are not expected to have a financial impact on the AMP group.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*. This standard amends the required disclosures in AASB 7 *Financial Instruments: Disclosures* to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. These amendments are mandatory for adoption by the AMP group in the year ending 31 December 2013. These changes are not expected to have a financial impact on the AMP group.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*. These amendments clarify the meaning of 'currently has a legally enforceable right to set off'. The amendments also clarify the application of AASB 132 *Financial Instruments: Presentation* offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous. These amendments are mandatory for adoption by the AMP group in the year ending 31 December 2014. These changes are not expected to have a financial impact on the AMP group.
- AASB 9 *Financial Instruments*. This standard makes significant changes to the way financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity. In subsequent phases, the AASB will address hedge accounting and impairment of financial assets. AASB 9 is mandatory for adoption by the AMP group in the year ending 31 December 2015.

The financial impact to the AMP group of adopting AASB 9 has not yet been quantified.

Change in estimates

AASB 119 *Employee Benefits* requires employee benefit provisions and defined benefit plan liabilities to be determined by discounting future cash flows using discount rates determined with reference to market yields at the end of the reporting period on high quality corporate bonds or, in countries where there is no deep market in such bonds, using market yields at the end of the period on government bonds.

In re-estimating Australian employee benefit provisions and defined benefit plan liabilities for financial reporting purposes at 31 December 2012, AMP group has changed from using market yields on Commonwealth government bonds to a blend of market yields on Commonwealth government and state government bonds. This has resulted in a decrease in the Australian defined benefit plan liabilities of \$34m after tax effect. The impact of changes in discount rates on employee benefit provisions was not material.

Change in presentation of the Statement of cash flows

The Statement of cash flows has been enhanced to treat reinvested distributions from controlled managed investment schemes as non-cash transactions and exclude them from the Statement of cash flows, and to consistently apply the definition of cash and cash equivalents across the managed investment schemes controlled by the AMP life insurance entities. Previously reinvested distributions from controlled managed investment schemes had been included in the Statement of cash flows on a gross basis as Dividends and distributions received and Payments to acquire investments in financial assets and the definition of cash and cash equivalents was not consistently applied for certain controlled managed investment schemes controlled by the AMP life insurance entities.

These changes have resulted in a decrease in Dividends and distributions received and Cash flows from operating activities of \$1,702m (2011: \$2,743m), a decrease in Net payments to acquire investments in financial assets and Cash flows used in investing activities of \$3,422m (2011: \$3,443m), a decrease in the net decrease in Cash and cash equivalents of \$1,700m (2011: an increase in the Net increase in cash and cash equivalents of \$700m) and an increase in Cash and cash equivalents at the end of the period of \$2,420m (2011: \$700m). Comparatives have been restated to be consistent with current year disclosures.

(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 majority of the AMP life insurance entities' investments are held through controlling interests in a number of managed investment schemes and companies.

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

Consolidation principles require the total amounts of each underlying asset, liability, income and expense of the controlled entities to be recognised in the consolidated financial statements. When a controlled managed investment scheme is consolidated, the share of the unitholder liability attributable to the AMP group is eliminated but amounts due to external unitholders remain as liabilities in the consolidated Statement of financial position. The share of the net assets of controlled companies attributable to non-controlling interests is disclosed as a separate line item on the Statement of financial position.

1. Basis of preparation and summary of significant accounting policies continued

In the Income statement, the profit or loss of the AMP 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 AMP group ceases to control an entity, the consolidated financial statements includes the results for the part of the reporting period during which the parent entity had control.

In 2011 AMP group acquired AMP AAPH Limited (formerly AXA Asia Pacific Holdings Limited). 2011 consolidated revenues and expenses include a nine-month contribution from the AMP AAPH Limited group from the date of acquisition.

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

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

Consolidation impact of investments of the AMP life insurance entities

AMP life insurance entities conduct 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 AMP group financial statements, along with those attributable to the shareholders of the parent entity.

The majority of the AMP life insurance entities' statutory funds' investments are held through controlling interests in a number of managed investment schemes and companies. These investment assets are held on behalf of policyholders and the AMP life insurance entities' statutory funds recognise a liability to the policyholders valued as described in note 1(s) for Life insurance contract liabilities, and note 1(t) for Investment contract liabilities. In certain cases, the amount of the net assets of the controlled entities recognised in the consolidated financial statements may not match the valuation of the relevant liability to the policyholder which results in certain policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

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

Securitisation vehicles

The banking operation of the AMP group sells mortgage loans to securitisation vehicles (also referred to as special purpose entities) through its loan securitisation program. These securitisation vehicles are controlled by the AMP group and are therefore consolidated.

(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 AMP group are investment contracts and life insurance contracts.

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

Investment contracts

The majority of the business of the AMP life insurance entities relates to wealth-management products such as savings, investment-linked and retirement income policies. The nature of this business is that the AMP life insurance entities receive 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 insurance entities also issue contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies known as discretionary participating contracts, that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of the AMP life insurance entities.

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

Assets measurement basis

Assets backing investment contract and life insurance contract liabilities are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under Australian Accounting Standards.

Investment contract liabilities are measured at fair value as described in note 1(t) and life insurance contract liabilities are measured 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 are described later in note 1.

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

(d) Cash and cash equivalents

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

(e) Receivables

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

1. Basis of preparation and summary of significant accounting policies continued

(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 designated on initial recognition as financial assets measured at fair value through profit or loss are initially recognised at fair value determined as the purchase cost of the asset, exclusive of any transaction costs. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the Income statement in the period in which they arise.

Subsequent to initial recognition, the fair value of investments measured at fair value through profit or loss is determined as follows:

- the fair value of equity securities in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, a fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
- the fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
- the fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.
- the fair value of derivative financial assets is determined in accordance with the policy set out in note 1(q).

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

Investments in financial assets measured at amortised cost

Investments in financial assets measured at amortised cost are mainly assets of AMP Bank. Loans, advances and other receivables which arise when AMP Bank provides money directly to a customer including loans and advances to advisors, with no intention of trading the financial assets are measured at amortised cost. All other debt securities held by AMP Bank are classified as held to maturity investments. Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

Investments in financial assets measured at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. These assets are subsequently recognised at amortised cost using the effective interest rate method.

Investments in controlled entities

Investments by the parent entity in controlled entities are measured at cost (which, in the case of the investment in

AMP Group Holdings Limited, was determined as net asset value on demutualisation) less any accumulated impairment losses.

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

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

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

(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. Subsequent to initial recognition, investment property is measured at fair value.

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

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

The process adopted to determine fair values for investment properties is set out in note 11.

(j) Property, plant and equipment

Owner-occupied property

Under Australian Accounting Standards, where the whole or a significant portion of a property owned by the AMP group is held for use by the AMP 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 within Property, plant and equipment in the Statement of financial position.

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 11.

When a revaluation increases the carrying value of a property, the increase is recognised directly in Other comprehensive income through the owner-occupied property revaluation reserve. However, an increase is recognised in the Income statement to the extent that the amount 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.

1. Basis of preparation and summary of significant accounting policies continued

Gains or losses on disposals are measured as the difference between proceeds and 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.

To the extent any owner-occupied property is held by the life insurance entities' statutory funds, the amounts recognised for the asset in the consolidated financial statements may not match the valuation of the relevant liability to the policyholder which results in certain policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

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 three to 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 AMP group and the cost of the item can be reliably measured.

(k) Intangible assets

Goodwill

When the aggregate of the fair value of the consideration transferred in a business combination, the recognised amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceeds the fair value of the identifiable assets acquired and liabilities assumed, the excess is recognised as goodwill. Subsequently, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation.

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 on a straight-line basis over the estimated useful life of the asset, commencing at the time the asset is first put into use or held ready for use (whichever is the earlier). The useful lives of such assets generally do not exceed five years, however a useful life of up to seven years has been applied to some capitalised costs relating to IT systems development projects where AMP group expects benefits to flow over a longer period.

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 AMP 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. 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.

Value of in-force business

An intangible asset is recognised in a business combination for the fair value of future business arising from the existing contractual arrangements of the acquired businesses with its customers. The value of in-force business is measured initially at fair value and is subsequently amortised on a straight-line basis over its useful life. Value of in-force business has a useful life of 10 years for wealth management and distribution business and 20 years for wealth protection and mature business.

Distribution networks

An intangible asset is recognised in a business combination for the fair value of the existing contractual distribution arrangements of the acquired entity. Distribution networks intangibles are also recognised where AMP group acquires customer lists or other distribution related rights other than through a business combination. Distribution networks are measured initially at fair value and subsequently amortised on a straight-line basis over their useful lives of three to 15 years.

Other intangible assets

Other intangible assets comprise:

- amounts recognised in a business combination for the value of the software assets of the acquired entity where it is expected that future economic benefits will be derived. Software is recognised initially at fair value and is subsequently amortised on a straight-line basis over its useful life. Software has a useful life of two to four years. Software maintenance costs are expensed as incurred.
- acquired customer relationships recognised as a result of business combinations when they can be separately identified, reliably measured and it is probable that expected benefits will flow to the AMP group. These intangible assets are initially measured at cost and are subsequently amortised on a straight-line basis over the estimated useful life of each asset.

Reassessment of useful life

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

(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, measured at fair value through profit or loss, and investment properties, are not subject to impairment testing. Other assets such as property, plant and equipment, intangible assets including goodwill, investments in associates accounted for using the equity method, investments in financial assets measured at amortised cost and (in the case of the parent entity) investments in controlled entities are subject to impairment testing.

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

Any impairment loss, being the amount by which the carrying amount of an asset exceeds its recoverable amount, is recognised in the Income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purposes of assessing impairment of goodwill, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates.

1. Basis of preparation and summary of significant accounting policies continued

(m) Taxes

Tax consolidation

AMP Limited and its wholly-owned controlled entities which are Australian domiciled companies comprise a tax-consolidated group of which AMP Limited is the head entity.

Following the AMP group's sale of 15 per cent ownership interest in AMP Capital Holdings Limited (AMPCH) on 1 March 2012, AMPCH and its wholly-owned controlled entities which are Australian domiciled companies left the AMP Limited tax-consolidated group and formed their own tax consolidated-group of which AMPCH is the head entity.

The implementation date for the AMP Limited tax-consolidated group was 30 June 2003.

Under tax consolidation the head entity assumes the following balances from entities within the tax-consolidated group:

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

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

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

Income tax expense

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

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

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

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

Income tax for investment contracts business and life insurance contracts business

The income tax expense recognised in the Income statement of AMP group which arises in respect of the AMP life insurance entities reflects tax imposed on shareholders as well as policyholders.

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

Arrangements made with some superannuation funds result in the AMP life insurance entities making payments to the Australian Taxation Office in relation to contributions tax arising in those funds. The amounts paid are recognised as a decrease in investment contract liabilities and not included in income tax expense.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences 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 AMP 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 relevant expense.

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

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

(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 payable approximates fair value.

1. Basis of preparation and summary of significant accounting policies continued

(o) Provisions

Provisions are recognised when:

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

Where the AMP 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. For provisions other than employee entitlements the discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Employee entitlements

Liabilities arising in respect of salaries and wages and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. 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 AMP group. A provision is recognised when the AMP 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 AMP 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 AMP life insurance entities' 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 AMP'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).

Borrowings of controlled managed investment schemes of the AMP life insurance entities' statutory funds are measured at amortised cost for the purpose of determining the unit price of those schemes. These borrowings are measured at amortised cost in this financial report with any difference between the proceeds (net of transaction costs) and the redemption amount recognised in the Income statement over the period of the contract using the effective interest rate method.

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

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

The AMP group is exposed to changes in interest rates and foreign exchange rates as well as movements in the fair value of investment guarantees it has issued in respect of its products. To mitigate the risks arising from these exposures, the AMP 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 exclusive of any transactions costs on the date on which a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. All derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

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 AMP 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).

AMP group documents the relationship between hedging instruments and hedged items at inception of the transaction, as well as the AMP group's risk management and strategy for undertaking various hedge transactions. The AMP 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.

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, and
 - 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

1. Basis of preparation and summary of significant accounting policies continued

- 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, and
- 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 (including related tax impacts) in the Hedge of net investment reserve, 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 for financial assets is the current bid price; the quoted market price for financial liabilities is the current offer price.

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

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

Financial assets and financial liabilities are recognised at the date the AMP group becomes a party to the contractual provisions of the instrument. 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) Life insurance contract liabilities

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

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

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

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

Allocation of operating profit and unvested policyholder benefits

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995 (Life Act)* and, for NMLA, the Memorandum of Demutualisation.

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 (ie unvested) and that which has been allocated to specific policyholders by way of bonus distributions (ie vested) are included within life insurance contract liabilities.

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

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

- (i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings. This proportion is, mostly, 80 per cent policyholders and 20 per cent shareholders.
- (ii) Other MoS profits arising from discretionary participating business are allocated 80 per cent to policyholders and 20 per cent to shareholders, with the following exceptions:
 - the profit arising from New Zealand corporate superannuation business is apportioned such that shareholders are allocated 15 per cent of the profit allocated to policyholders
 - the profit arising in respect of Preservation Superannuation Account business is allocated 92.5 per cent to policyholders and 7.5 per cent to shareholders

1. Basis of preparation and summary of significant accounting policies continued

- the profits arising from NMLA's discretionary participating investment account business where 100 per cent of investment profit is allocated to policyholders and 100 per cent of any other profit or loss is allocated to shareholders, with the over-riding provision being that at least 80 per cent of any profit and not more than 80 per cent of any loss be allocated to policyholders' retained profits of the relevant statutory fund
 - the underwriting profit arising in respect of NMLA's Participating Business Super Risk business is allocated 90 per cent to policyholders and 10 per cent to shareholders,
 - for AMP Life, additional tax on taxable income to shareholders in respect of Australian superannuation business is allocated to shareholders only.
- (iii) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in life entities' statutory funds (excluding retained earnings dealt with in (i) above) are allocated to shareholders.

Allocation of expenses within the life insurance entities' 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 operating expenses. See note 1(aa).

(t) Investment contract liabilities

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

For fixed retirement-income policies, the financial instrument element of the liability is the fair value of the fixed retirement-income payments, being their net present value using a fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

(u) Contributed equity

Issued capital

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

Treasury shares

The Australian Securities and Investments Commission (ASIC)

has granted relief from restrictions in the *Corporations Act 2001* to allow AMP's life insurance entities to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. These shares (defined by Australian Accounting Standards as *treasury shares*) are held on behalf of policyholders and, as a result, the AMP life insurance entities' statutory funds also recognise a corresponding liability to policyholders.

Under Australian Accounting Standards, the AMP group cannot recognise 'treasury shares' in the consolidated Statement of financial position. These assets, plus any corresponding Income statement fair value movement on the assets and dividend income, are eliminated when the AMP life insurance entities' statutory funds are consolidated into the AMP group. The cost of the investment in the shares is deducted to arrive at the amount of contributed equity.

However, the corresponding investment contract and life insurance contract liabilities, and related Income statement change in the liabilities, remain on consolidation. At the AMP group consolidated level, this mismatch results in policyholder asset movements impacting the profit attributable to shareholders of AMP Limited.

(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 AMP 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.

Translation of controlled entities

Where the functional currency of a controlled entity is not the presentation 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, the cumulative amount in the foreign currency translation reserve relating to that operation is recognised in the Income statement as part of the gain or loss on sale. If a portion of the operation is sold, the proportionate share of the cumulative amount is recognised.

(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.

1. Basis of preparation and summary of significant accounting policies continued

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(t).

(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(t).

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 AMP 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 AMP group obtains control of the right to receive the revenue.

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

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

(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 a liability to a policyholder under a 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(t).

(aa) Operating expenses

All operating expenses, other than those allocated to life insurance contracts, see note 1(s), are expensed as incurred.

Expenses of controlled entities of the AMP life insurance entities' statutory funds represent the business costs of those entities and are consolidated into the results of the AMP 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(t).

Operating lease payments

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:

- Borrowing costs:
 - interest on bank overdrafts, borrowings and subordinated debt, and
 - amortisation of discounts or premiums related to borrowings.
- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- 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 AMP 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 AMP 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.

1. Basis of preparation and summary of significant accounting policies continued

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 AMP group operates 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 26 for further information on the funds.

The contributions paid and payable by AMP 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 AMP group, the AMP group recognises the net deficit or surplus position of each fund in the Statement of financial position as defined by AASB 119 *Employee Benefits*. This does not represent an assessment of the funds' funding positions. The deficit or surplus is measured as the difference between the fair value of the funds' assets and the discounted defined benefit obligations of the funds, using discount rates determined with reference to market yields at the end of the reporting period on high quality corporate bonds or, in countries where there is no deep market in such bonds, using market yields at the end of the period on government bonds. The defined benefit obligation is calculated annually, with half-yearly reviews, by independent actuaries.

After taking into account any contributions paid into the defined benefit 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 (net of tax), directly in Other comprehensive income.

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

(ee) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit attributable to shareholders of AMP Limited, by the weighted average number of ordinary shares outstanding during the period. The weighted average number of 'treasury shares' held during the period is deducted in calculating the weighted average number of ordinary shares outstanding.

Diluted earnings per share is calculated by dividing the profit used in the determination of basic earnings per share by the weighted average number of shares outstanding during the period adjusted for potential ordinary shares considered to be dilutive. Potential ordinary shares are contracts such as options and performance rights that may entitle the holder to ordinary shares. These potential ordinary shares are considered dilutive when their conversion into ordinary shares would be likely to cause a reduction in earnings per share. The weighted average number of 'treasury shares' held during the period is deducted in calculating the weighted average number of ordinary shares outstanding for diluted earnings per share.

(ff) Disposal groups held for sale

A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable, the disposal group is available for immediate sale in its present condition, management is committed to a plan to sell the group and a sale is expected to be completed within a year.

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities of disposal groups are shown separately from other assets and liabilities in the Statement of financial position.

2. Significant accounting judgements, estimates and assumptions

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements. Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events.

Significant accounting judgements, estimates and assumptions include but are not limited to:

(a) Consolidation

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

2. Significant accounting judgements, estimates and assumptions continued

(b) Fair value of investments in financial assets

The AMP group measures investments in financial assets, other than those held by AMP Bank and loans and advances to advisers, at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair value of financial instruments is set out in note 22.

(c) Fair values of investment properties and owner-occupied property

The AMP group measures investment properties at fair value through profit or loss. Owner-occupied property is measured at fair value at last valuation date less subsequent depreciation. The valuation of investment properties and owner-occupied property requires judgement to be applied in selecting appropriate valuation techniques and setting valuation assumptions. The AMP group engages independent registered valuers to value each of its investment properties on a rolling annual basis. Further detail on the determination of fair values of investment properties is set out in note 11.

(d) Acquired intangible assets

Subject to some exceptions, accounting standards require the assets and liabilities of businesses acquired through a business combination to be measured at their acquisition date fair values. Management apply judgement in selecting valuation techniques and setting valuation assumptions to determine the acquisition date fair values and to estimate the useful lives of these assets. Note 24 provides details of intangibles acquired through business combinations during the period.

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

Judgement is applied by management in assessing whether there are any impairment indicators and, where required, determining the recoverable amount. For further details on impairment of intangibles, refer to note 13.

(e) Goodwill

Goodwill is required to be allocated to cash generating units and tested for impairment on an annual basis. Management apply judgement in determining cash generating units and allocating the goodwill arising from business combinations to these cash generating units. Impairment is assessed annually by determining the recoverable amount of each cash generating unit which has a goodwill balance. Management applies judgement in selecting valuation techniques and setting valuation assumptions to determine the recoverable amount. Note 13 sets out further information on the impairment testing of goodwill.

(f) Tax

The AMP group is subject to taxes in Australia and other jurisdictions where it has operations. The application of tax law to the specific circumstances and transactions of the AMP group requires the exercise of judgement by management.

The tax treatments adopted by management in preparing the financial statements may be impacted by changes in legislation and interpretations or be subject to challenge by tax authorities.

Judgement is also applied by management in determining the extent to which the recovery of carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets. Note 7 sets out information on carried forward tax losses for which a deferred tax asset has not been recognised.

(g) Provisions

A provision is recognised for items where the AMP group has a present obligation arising from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is measured as the best estimate of the expenditure required to settle the present obligation. Management apply judgement in assessing whether a particular item satisfies the above criteria and in determining the best estimate. Note 15 sets out further information on provisions.

(h) Insurance contract liabilities

The measurement of insurance contract liabilities is determined using the margin on services (MoS) methodology. The determination of the liability amounts involves judgement in selecting the valuation methods and profit carriers for each type of business and setting valuation assumptions. The determination is subjective and relatively small changes in assumptions may have a significant impact on the reported profit. The board of each of the life entities is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary. Further detail on the determination of insurance contract liabilities is set out in note 20.

(i) Investment contract liabilities

Investment contract liabilities are measured at fair value. For the majority of contracts, the fair value is determined based on published unit prices and the fair value of backing assets, and does not generally require the exercise of judgement. For fixed income products and the North capital guarantee, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions. Further details on investment contract liabilities are set out in note 21.

(j) Defined benefit plan liabilities

The defined benefit plan liabilities of the AMP group are measured as the difference, for each fund, of the fair value of the fund's assets and the actuarially determined present value of the obligation to fund members. AASB 119 *Employee Benefits* requires defined benefit plan liabilities to be measured using discount rates determined with reference to market yields at the end of the reporting period or high quality corporate bonds or in countries where there is no deep market in such bonds, using market yields on government bonds. Judgement is applied in assessing whether there is a deep market in high quality corporate bonds and in the selection of government bonds used to determine the yield.

The determination of the fair value of the fund's assets is also subject to the other judgements, estimates and assumptions discussed at (b) above. The calculation of the obligation to fund members requires judgement to be applied in the setting of actuarial assumptions. Further detail on the determination of defined benefit plan liabilities is set out in note 26.

3. Segment information

(a) Segments – background

Operating segments have been identified based on separate financial information that is regularly reviewed by the Chief Operating Decision Maker (CODM). The term CODM refers to the function performed by the Chief Executive Officer and his immediate team, as a team, in assessing performance and determining the allocation of resources. The operating segments are identified according to the nature of profit generated and services provided. Segment information in this note is reported separately for each operating segment. AMP group evaluates the performance of segments on a post-tax operating earnings basis.

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

Asset segment information has not been disclosed because the balances are not provided to the CODM for the purposes of evaluating segment performance and deciding the allocation of resources to segments.

(b) Description of segments

AMP Financial Services

AMP Financial Services provides a range of products and services to customers in Australia and New Zealand. These products and services are primarily distributed through self-employed financial planners and advisers, as well as through extensive relationships with independent financial advisers.

AMP Financial Services is reported as four separate divisions:

- *Australian Wealth Management (WM)* – Financial planning services (including owned advice businesses), platform, including SMSF, administration, unit-linked superannuation, retirement income and managed investment products business. Superannuation products include personal and employer sponsored plans.

WM includes AMP Bank, which is a direct Australian bank offering residential mortgages, deposits, transactional banking as well as practice loans to AMP aligned planners.

- *Australian Wealth Protection (WP)* – Includes personal and group term, disability and income protection insurance products. Products can be bundled with a superannuation product or held independently of superannuation.
- *Australian Mature (Mature)* – A business comprising products which are mainly in run-off. Closed products include whole of life, endowment, investment linked, investment account, RSA, GSA, annuities and personal superannuation.
- *AMP Financial Services New Zealand (AFS NZ)* – A risk insurance business and mature book (traditional participating business), with a growing wealth management business driven by KiwiSaver.

AMP Capital

AMP Capital is a diversified investment manager, providing investment services for domestic and international customers. Through a team of in-house investment professionals and a carefully selected global network of investment partners, AMP Capital manages investments across major asset classes including equities, fixed interest, property, infrastructure and multi-manager and multi-asset funds. AMP Capital also provides commercial, industrial and retail property management services.

AMP Capital has established operations in Australia and New Zealand and a growing international presence with offices in Bahrain, China, Hong Kong, India, Japan, Luxembourg, the United Kingdom and the United States, allowing it to source competitive offshore opportunities.

On 1 March 2012, AMP Capital and Mitsubishi UFJ Trust and Banking Corporation (MUTB) completed the transaction which formed the strategic business and capital alliance between the two parties and resulted in MUTB acquiring a 15 per cent ownership interest in AMP Capital.

3. Segment information continued

	WM \$m	WP ² \$m	Mature ² \$m	AFS NZ ² \$m	AMP Capital ³ \$m	Total operating segments \$m
(c) Segment profit						
2012						
Segment profit after income tax ¹	347	190	167	73	99	876
Other segment information⁴						
External customer revenue	1,536	190	167	73	240	2,206
Intersegment revenue ⁵	113	–	–	–	222	335
Income tax expense	147	81	72	28	37	365
Depreciation and amortisation	40	6	5	3	11	65
2011						
Segment profit after income tax ¹	322	215	153	76	83	849
Other segment information⁴						
External customer revenue	1,383	215	153	76	220	2,047
Intersegment revenue ⁵	90	–	–	–	206	296
Income tax expense	138	92	66	30	26	352
Depreciation and amortisation	60	8	–	4	8	80

- 1 Segment profit after income tax differs from Profit attributable to shareholders of AMP Limited due to the exclusion of the following items:
 - i group office costs
 - ii investment return on shareholder assets invested in income producing investment assets
 - iii interest expense on corporate debt
 - iv other items (refer to note 3(d) for further details). These items do not reflect the underlying operating performance of the operating segments, and
 - v accounting mismatches, market adjustments (annuity fair value and risk products) and amortisation of AMP AAPH acquired intangible assets.
- 2 Statutory reporting revenue for Australian Wealth Protection, Australian Mature and AMP Financial Services New Zealand includes premium and investment gains and losses. However, for segment reporting, external customer revenue is operating earnings which represents gross revenue less claims, expenses, movement in insurance contract liabilities and tax relating to those segments.
- 3 AMP Capital segment revenue is reported net of external investment manager fees paid in respect of certain assets under management. AMP Capital segment profit for 2012 is reported net of 15 per cent attributable to MUTB from March 2012. Other AMP Capital segment information is reported before deductions of minority interests.
- 4 Other segment information excludes revenue, expenses and tax relating to assets backing policyholder liabilities.
- 5 Intersegment revenue represents operating revenue between segments priced on an arm's length basis.

3. Segment information continued

	2012 \$m	2011 \$m
(d) Reconciliation of segment profit after tax		
Australian Wealth Management	347	322
Australian Wealth Protection	190	215
Australian Mature	167	153
AMP Financial Services New Zealand	73	76
AMP Financial Services	777	766
AMP Capital	99	83
Business unit operating earnings	876	849
Group office costs	(61)	(57)
Total operating earnings	815	792
Underlying investment income ¹	226	183
Interest expense on corporate debt	(86)	(82)
AMP Limited tax loss recognition	–	16
Underlying Profit	955	909
Market adjustment – investment income ¹	(12)	(50)
Market adjustment – annuity fair value ²	(9)	13
Market adjustment – risk products ³	(4)	53
Other items ⁴	34	4
Profit after income tax before AMP AAPH merger related adjustments and accounting mismatches	964	929
M&A transaction costs	(4)	(42)
AMP AAPH integration costs	(128)	(105)
Amortisation of AMP AAPH acquired intangible assets	(99)	(75)
Accounting mismatches ⁵	(29)	(19)
Profit attributable to shareholders of AMP Limited	704	688
(e) Reconciliation of segment revenue		
Total segment revenue	2,541	2,343
Add revenue excluded from segment revenue		
– Investment gains and (losses) – shareholders and policyholders (excluding AMP Bank interest revenue)	11,213	612
– Revenue of investment entities controlled by the life entities' statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group	223	270
– Other revenue	89	110
Add back expenses netted against segment revenue		
– Claims, expenses, movement in insurance contract liabilities and tax relating to Australian Wealth Protection, Australian Mature and AMP Financial Services New Zealand businesses	1,788	1,433
– Interest expense related to AMP Bank	696	685
– External investment manager and advisor fees paid in respect of certain assets under management	667	526
Remove intersegment revenue	(335)	(296)
Total revenue⁶	16,882	5,683

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

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

3 Market adjustment – risk products relates to the net impact of changes in market economic assumptions (bond yields and CPI) on the valuation of risk insurance liabilities. For NMLA, this also included the impact of changes in the market value of equities up until June 2011. Equities were removed from backing the asset allocation in June 2011 following the merger.

4 Other items include one-off and non-recurring revenues and costs.

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

6 Revenue as per the Income statement of \$16,882m (2011: \$5,683m) comprises Premiums and related revenue \$2,218m (2011: \$1,877m), Fee revenue \$2,268m (2011: \$1,962m), Other revenue \$312m (2011: \$380m) and Investment gains and (losses) gains of \$12,084m (2011: gains of \$1,464m).

4. Income

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(a) Life insurance premium and related revenue				
Life insurance contract premium revenue	2,105	1,786	–	–
Reinsurance recoveries	113	91	–	–
Total life insurance premium and related revenue	2,218	1,877	–	–
(b) Fee revenue				
Investment management and origination fees	1,745	1,517	–	–
Financial advisory fees	523	445	–	–
Service fees – subsidiaries	–	–	12	16
Total fee revenue	2,268	1,962	12	16
(c) Other revenue				
Defined benefit plan income	7	2	–	–
Other revenue ¹	305	378	–	–
Total other revenue	312	380	–	–

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

5. Investment gains and (losses)

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Investment gains and (losses)				
Interest ¹	2,391	2,586	2	3
Dividends and distributions				
– subsidiaries	–	–	295	280
– associated entities not equity accounted	231	261	–	–
– other entities	2,467	3,192	–	–
Rental income	653	676	–	–
Net realised and unrealised gains and (losses) ²	6,262	(5,294)	–	–
Other investment income	80	43	–	–
Total investment gains and (losses)³	12,084	1,464	297	283

1 Interest includes interest income from financial assets designated at fair value through profit or loss upon initial recognition, with the exception of \$838m (2011: \$820m) interest income from held to maturity investments and loans and advances in banking operations, which are measured at amortised cost.

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.

3 Investment gains and losses include amounts attributable to shareholders' interests, policyholders' interests in the AMP life insurance entities' statutory funds, external unitholders' interests and non-controlling interests.

6. Expenses

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(a) Life insurance claims and related expenses				
Life insurance contract claims and related expenses	(1,953)	(1,714)	–	–
Outwards reinsurance expense	(95)	(76)	–	–
Total life insurance claims and related expenses	(2,048)	(1,790)	–	–
(b) Operating expenses				
Commission and advisory fee-for-service expense	(1,015)	(911)	–	–
Investment management expenses	(267)	(257)	–	–
Fee and commission expenses	(1,282)	(1,168)	–	–
Wages and salaries	(938)	(869)	(4)	(6)
Contributions to defined contribution plans	(90)	(62)	–	–
Defined benefit fund expense	(2)	(9)	–	–
Share-based payments expense	(27)	(26)	(5)	(4)
Other staff costs	(73)	(139)	(1)	(1)
Staff and related expenses	(1,130)	(1,105)	(10)	(11)
Occupancy and other property related expenses	(108)	(103)	–	–
Direct property expenses ¹	(179)	(179)	–	–
Information technology and communication	(296)	(209)	–	–
Professional fees	(122)	(150)	–	–
Advertising and marketing	(41)	(50)	–	–
Travel and entertainment	(42)	(38)	–	–
Impairment of intangibles ²	(56)	(29)	–	–
Amortisation of intangibles	(218)	(163)	–	–
Depreciation of property, plant and equipment	(44)	(37)	–	–
Other expenses ⁴	(306)	(194)	(3)	(5)
Other operating expenses	(1,412)	(1,152)	(3)	(5)
Total operating expenses³	(3,824)	(3,425)	(13)	(16)
(c) Finance costs				
Interest expense on borrowings and subordinated debt	(747)	(807)	–	–
Other finance costs	(70)	(110)	–	–
Total finance costs	(817)	(917)	–	–

1 Direct property expenses relate to investment properties which generate rental income.

2 Impairment of intangibles includes \$40m in relation to controlled entities of AMP life insurance entities' statutory funds. Further information is provided in note 13.

3 Total operating expenses include certain trading expenses of investment entities controlled by the AMP life insurance entities' statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group.

4 Other expenses in 2012 includes \$84m (before tax) provided for costs of implementing regulatory change.

7. Income tax

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(a) Analysis of income tax (expense) credit				
Current tax (expense) credit	(300)	(405)	14	4
Increase (decrease) in deferred tax assets	10	300	(1)	43
(Increase) decrease in deferred tax liabilities	(497)	139	–	–
Over (under) provided in previous years including amounts attributable to policyholders	90	(31)	(8)	22
Income tax (expense) credit	(697)	3	5	69

(b) Relationship between income tax expense and accounting profit

The following table provides a reconciliation of differences between prima facie tax calculated as 30 per cent of the profit before income tax for the year and the actual income tax expense recognised in the Income statement for the year. The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders. In respect of income tax expense attributable to shareholders, the tax rate which applies is 30 per cent in Australia and 28 per cent in New Zealand.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15 per cent, and certain classes of income on some annuity business are tax-exempt. The rate applicable to New Zealand life insurance business during the year is 28 per cent.

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Profit before income tax	1,384	673	296	283
Policyholder tax (expense) credit recognised as part of the change in policyholder liabilities in determining profit before tax	(561)	265	–	–
Profit before income tax excluding tax charged to policyholders	823	938	296	283
Prima facie tax at the rate of 30%	(247)	(281)	(89)	(85)
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	(22)	24	–	–
– Non-deductible expenses	(65)	(39)	(1)	(1)
– Non-taxable income	5	16	–	–
– Tax offsets and credits	83	17	–	–
– Dividend income from controlled entities	–	–	89	84
– Other items	(14)	(11)	1	3
Over (under) provided in previous years after excluding amounts attributable to policyholders ¹	83	(33)	(7)	22
Benefit arising from previously unrecognised tax losses	31	41	12	46
Differences in overseas tax rate	10	4	–	–
Income tax (expense) credit attributable to shareholders	(136)	(262)	5	69
Income tax (expense) credit attributable to policyholders	(561)	265	–	–
Income tax (expense) credit per Income statement	(697)	3	5	69

1 The over provision in prior years reported in 2012 mainly relates to the release of provisions previously held against the tax treatment of amounts for which additional evidence has been obtained and analysis performed during the period supporting the validity of the original tax treatment. The under provision in 2011 mainly relates to the reassessment of deductions previously recognised in respect of managed funds.

7. Income tax continued

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(c) Analysis of deferred tax assets				
Expenses deductible and income recognisable in future years	344	350	1	1
Unrealised movements on borrowings and derivatives	59	55	–	–
Unrealised investment losses	100	273	–	–
Losses available for offset against future taxable income	600	356	59	329
Other	82	61	5	3
Total deferred tax assets	1,185	1,095	65	333
(d) Analysis of deferred tax liabilities				
Unrealised investment gains	770	274	–	–
Unrealised movements on borrowings and derivatives	86	62	–	–
Other	536	587	–	–
Total deferred tax liabilities	1,392	923	–	–
(e) Amounts recognised directly in equity				
Deferred income tax (expense) credit related to items taken directly to equity during the current period	(51)	58	–	–
(f) Unused tax losses and deductible temporary differences not recognised				
Revenue losses	121	116	110	104
Capital losses	485	560	408	477

8. Receivables

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Investment income receivable	111	193	–	–
Investment sales and margin accounts receivable	656	689	–	–
Life insurance contract premiums receivable	369	355	–	–
Reinsurance and other recoveries receivable	29	11	–	–
Reinsurers' share of life insurance contract liabilities	530	477	–	–
Trade debtors	227	309	1	1
Other receivables	121	187	2	2
Other receivables – subsidiaries tax related amounts	–	–	56	–
Total receivables¹	2,043	2,221	59	3

1 \$464m (2011: \$455m) of Total consolidated receivables is expected to be recovered more than 12 months from reporting date and nil (2011: nil) of Total receivables of the parent is expected to be recovered more than 12 months from reporting date.

9. Inventories and other assets

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Inventories ¹	145	202	–	–
Prepayments	53	71	–	–
Other assets ²	3	3	–	–
Total inventories and other assets³	201	276	–	–

- Inventories include inventories and development properties of investment entities controlled by the life entities' statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group. Inventories also include financial planning client servicing rights held for sale in the ordinary course of business. AMP group has arrangements in place with certain financial planning advisers whereby AMP group is required, subject to the adviser meeting certain conditions, to pay a benefit to those advisers on surrender of the client servicing rights. The benefit paid under these arrangements is calculated based on value metrics attributable to the client register at the valuation date. AMP has the right to change the multiples used to determine the benefit paid (subject to a notice period). In some cases, the arrangements can be changed without notice should legislation, economic or product changes render them inappropriate. In the normal course of business, AMP group seeks to on-sell the client servicing rights to other financial planning advisers and accordingly any client servicing rights acquired under these arrangements are classified as inventory.
- Other assets are assets of investment entities controlled by the life entities' statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group.
- \$93m of inventories and other assets is expected to be recovered more than 12 months from the reporting date. The basis for determining this estimate has changed from the prior year. Had the revised basis been applied in the prior year, the expected amount to be recovered more than 12 months from the reporting date for 2011 would have been \$102m.

10. Investments in financial assets and other financial liabilities

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Investments in financial assets measured at fair value through profit or loss¹				
Equity securities and listed managed investment schemes	37,083	32,223	–	–
Debt securities ²	30,696	29,082	–	–
Investments in unlisted managed investment schemes	15,305	12,793	–	–
Derivative financial assets	2,144	2,251	–	–
Other financial assets ³	145	179	–	–
Total investments in financial assets measured at fair value through profit or loss	85,373	76,528	–	–
Investments in financial assets measured at amortised cost				
Loans and advances – to subsidiaries	–	–	620	767
Loans and advances	12,462	11,254	–	–
Debt securities – held to maturity	1,839	1,651	–	–
Total investments in financial assets measured at amortised cost	14,301	12,905	620	767
Other financial liabilities				
Derivative financial liabilities	1,263	1,155	–	–
Collateral deposits held ⁴	1,054	1,449	–	–
Total other financial liabilities	2,317	2,604	–	–

- Investments measured at fair value through profit or loss are mainly assets of the life entities' statutory funds and controlled entities of the life entities' statutory funds.
- Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life entities' statutory funds and the controlled entities of the life entities' statutory funds.
- Other financial assets include investments of the life entities' statutory funds and controlled entities of the life entities' statutory funds.
- Collateral deposits held represents the obligation to repay collateral held in respect of debt security repurchase arrangements entered into by the life entities' statutory funds and the controlled entities of the life entities' statutory funds.

11. Investment property

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Investment property				
Directly held	6,508	7,424	–	–
Total investment property	6,508	7,424	–	–
Movements in investment property				
Balance at the beginning of the year	7,424	7,122	–	–
Additions – through direct acquisitions	465	–	–	–
Additions – subsequent expenditure recognised in carrying amount	104	85	–	–
Acquisitions (disposal) through business combinations	(793)	11	–	–
Disposals	(766)	(21)	–	–
Net gains (losses) from fair value adjustments	70	176	–	–
Foreign currency exchange differences	4	2	–	–
Transfer from inventories	–	49	–	–
Balance at the end of the year¹	6,508	7,424	–	–

1 Investment property of \$3,066m (2011: \$3,701m) held by controlled entities of the life entities' statutory funds has been provided as security against borrowings of these controlled entities of the life entities' 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 willing seller in an arm's length transaction.

Fair values of the AMP 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.

	Consolidated		Parent	
	2012	2011	2012	2011
Primary assumptions used in valuing investment property				
Capitalisation rates	6.00%–10.00%	6.00%–9.75%	–	–
Market determined, risk adjusted discount rate	8.75%–11.00%	9.00%–10.50%	–	–

12. Property, plant and equipment

	Owner-occupied property ² \$m	Leasehold improvements \$m	Plant and equipment ² \$m	Total \$m
2012				
Property, plant and equipment				
Gross carrying amount	321	98	313	732
Less: accumulated depreciation and impairment losses	–	(83)	(181)	(264)
Property, plant and equipment at written down value	321	15	132	468
Movements in property, plant and equipment				
Balance at the beginning of the year	311	14	154	479
Additions				
– through direct acquisitions	–	10	26	36
– subsequent expenditure recognised in carrying amount	2	–	–	2
Increases (decreases) from revaluations recognised directly in equity	12	–	–	12
Depreciation expense	(4)	(9)	(31)	(44)
Transfer to disposal group	–	–	(15)	(15)
Other movements	–	–	(2)	(2)
Balance at the end of the year	321	15	132	468
2011				
Property, plant and equipment				
Gross carrying amount	311	74	322	707
Less: accumulated depreciation and impairment losses	–	(60)	(168)	(228)
Property, plant and equipment at written down value	311	14	154	479
Movements in property, plant and equipment				
Balance at the beginning of the year	301	15	136	452
Additions				
– through direct acquisitions	–	5	24	29
– subsequent expenditure recognised in carrying amount	4	–	–	4
Acquisitions through business combinations	–	–	22	22
Increases (decreases) from revaluations recognised directly in equity	9	–	–	9
Depreciation expense	(3)	(6)	(28)	(37)
Balance at the end of the year	311	14	154	479

- 1 Owner-occupied property is measured at fair value; had the asset been measured at historic cost the amortised carrying value would have been \$198m (2011: \$200m).
- 2 Plant and equipment includes operating assets of investment entities controlled by the life entities' statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group.

13. Intangibles

	Goodwill ¹ \$m	Capitalised costs \$m	Management rights \$m	Value of in-force business \$m	Distribution networks \$m	Other intangibles \$m	Total \$m
2012							
Intangibles							
Gross carrying amount	2,888	691	16	1,191	173	139	5,098
Less: accumulated amortisation and/or impairment losses	(144)	(462)	(15)	(180)	(30)	(92)	(923)
Intangibles at written down value	2,744	229	1	1,011	143	47	4,175
Movements in intangibles							
Balance at the beginning of the year	2,815	171	15	1,114	128	104	4,347
Additions (reductions) through acquisitions (disposal) of controlled entities ²	23	–	–	–	13	(3)	33
Additions through separate acquisition	–	–	–	–	27	–	27
Additions through internal development	–	120	–	–	–	–	120
Transferred to disposal groups	(54)	–	–	–	–	(19)	(73)
Amortisation expense ³	–	(60)	–	(103)	(20)	(35)	(218)
Impairment losses ⁴	(40)	(2)	(14)	–	–	–	(56)
Other movements	–	–	–	–	(5)	–	(5)
Balance at the end of the year	2,744	229	1	1,011	143	47	4,175
2011							
Intangibles							
Gross carrying amount	2,919	571	16	1,191	138	161	4,996
Less: accumulated amortisation and/or impairment losses	(104)	(400)	(1)	(77)	(10)	(57)	(649)
Intangibles at written down value	2,815	171	15	1,114	128	104	4,347
Movements in intangibles							
Balance at the beginning of the year	702	162	20	–	–	35	919
Additions (reductions) through acquisitions (disposal) of controlled entities and other businesses ²	2,140	–	–	1,191	95	94	3,520
Additions through separate acquisition	2	–	–	–	43	1	46
Additions through internal development	–	61	–	–	–	–	61
Disposals	–	–	(5)	–	–	–	(5)
Amortisation expense ³	–	(50)	–	(77)	(10)	(26)	(163)
Impairment losses ⁴	(29)	–	–	–	–	–	(29)
Other movements	–	(2)	–	–	–	–	(2)
Balance at the end of the year	2,815	171	15	1,114	128	104	4,347

1 Total goodwill comprises amounts attributable to shareholders of \$2,682m (2011: \$2,659m) and amounts attributable to policyholders of \$62m (2011: \$156m).

2 Additions arose from the purchase of the remaining 50 per cent share of AMP Capital Brookfield Pty Limited, Cavendish Pty Limited and acquisition of distribution networks related to planner businesses. 2011 additions arose from the acquisition of AMP AAPH Limited.

3 Amortisation expense for the year is included in Operating expenses in the Income statement.

4 Impairment of goodwill relates to goodwill of controlled entities of the life entities' statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.

13. Intangibles continued

Impairment testing of goodwill

Goodwill includes balances attributable to shareholders and balances attributable to policyholders in investment entities controlled by the AMP life insurance entities' statutory funds.

Goodwill attributable to shareholders

\$2,682m (2011: \$2,659m) of the goodwill is attributable to shareholders and arose from the acquisition of AMP AAPH Limited group in the prior year, a previous *Life Act* Part 9 transfer of life insurance business into the statutory funds of AMP Life and other business combinations where AMP group was the acquirer.

Each of the businesses acquired included activities conducted in the same business units already operated by AMP. Those business units are Australian Wealth Management (WM), Australian Wealth Protection (WP), Australian Mature, AMP Financial Services New Zealand and AMP Capital and those business units are identified as the cash generating units for the purpose of assessing goodwill impairment.

For the purposes of impairment testing, the amount is allocated to the cash generating units as follows:

- Australian WM – goodwill attributable: \$1,405m (2011: \$1,390m)
- Australian WP – goodwill attributable: \$668m (2011: \$668m)
- Australian Mature – goodwill attributable: \$350m (2011: \$350m)
- AMP Financial Services New Zealand – goodwill attributable \$172m (2011: \$172m)
- AMP Capital – goodwill attributable \$87m (2011: \$79m).

AMP Capital has other intangible assets of \$nil (2011: \$15m) with an indefinite useful life. There were no other intangible assets with indefinite useful lives allocated to these cash generating units.

The recoverable amount for each cash generating unit has been determined using the 'fair value less costs to sell' basis. For each cash generating unit, other than AMP Capital, the recoverable amount has been determined considering a combination of the estimated embedded value plus the value of one year's new business times a multiplier. These are generally regarded as features of a Life insurance business that, when taken together, would be an estimate of fair value. Embedded value is a calculation which represents the economic value of the shareholder capital in the business and the future profits expected to emerge from the business currently in-force expressed in today's dollars.

The key assumptions applied in estimating the embedded value and value of one year's new business are: mortality, morbidity, discontinuance rates, maintenance unit costs, future rates of supportable bonus for participating business, franking credits, risk discount rates, investment returns and inflation rates. Premium and claim amounts are estimated over the expected life of the in-force policies which varies depending on the nature of the product. Future maintenance and investment expenses are estimated based on unit costs derived from budgeted amounts for the following year and increased in future years for expected rates of inflation. Assumptions applied in this valuation are consistent with the best estimate assumptions used in calculating the policy liabilities of AMP's life insurance entities except that the value of in-force and new business calculation includes a risk discount rate. Note 1(s) and note 20 provide extensive details with respect to the assumptions, management's approach to determining the values assigned to each key assumption and their consistency with past experience and external sources of information. All relevant business is projected for the embedded value and the description of the assumptions in note 20 applies even where that business is not valued by projection methods for profit reporting. The value of in-force and new business calculation uses a risk discount rate based on the zero coupon government bond curve plus a discount margin of three per cent: Australia 6.3 per cent (2011: 6.7 per cent), New Zealand 6.6 per cent (2011: 6.8 per cent).

The recoverable amount for the AMP Capital cash generating unit is determined based on an observable market price.

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

Goodwill attributable to policyholders

The policyholder goodwill has arisen on acquisitions of operating subsidiaries controlled by the AMP life insurance entities' statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP 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. Impairment testing resulted in an impairment of \$40m recognised during the year ended 31 December 2012 (31 December 2011: \$29m). Of this amount, \$26m was incurred as a result of a decline in projected future cash flows in underlying operating subsidiaries controlled by the AMP life insurance entities' statutory funds. The remaining \$14m was recognised on the classification of operating subsidiaries controlled by the AMP life insurance entities' statutory funds as disposal groups held for sale which required the basis for determining the recoverable amount to be changed from 'value in use' to 'fair value less cost to sell'.

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 11.9 per cent and 15.0 per cent (2011: 12.8 per cent and 16.2 per cent).

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 terminal value growth rates of between 2.7 per cent and 4.0 per cent per annum (2011: 3.0–5.0 per cent per annum). 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 of future cash outflows by the entity that will improve or enhance the entity's performance.

At the reporting date, there is no reasonably possible change in key assumptions that could cause the carrying amount to exceed the recoverable amount.

Shareholders have no direct exposure to movements in goodwill attributable to policyholders. However, due to the impact of the accounting for investments in controlled entities of the AMP life insurance entities' statutory funds (see note 1(b)), 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 AMP group ceases to control the investments.

14. Payables

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Investment purchases and margin accounts payable	454	551	–	–
Life insurance and investment contracts in process of settlement	314	349	–	–
Accrued expenses	154	112	–	–
Interest payable	24	34	–	–
Trade creditors	100	237	–	–
Other payables				
– subsidiaries	–	–	13	13
– subsidiaries tax related amounts	–	–	21	84
– other entities	822	649	1	1
Total payables^{1,2}	1,868	1,932	35	98

- 1 Total payables include payables of investment entities controlled by the AMP life insurance entities' statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group.
- 2 \$1m (2011: \$45m) of Total payables of the AMP group is expected to be settled more than 12 months from the reporting date and nil (2011: nil) of Total payables of the parent is expected to be settled more than 12 months from the reporting date.

15. Provisions

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(a) Provisions				
Employee entitlements ¹	289	267	3	3
Restructuring ²	16	50	–	–
Other ³	273	239	–	–
Total provisions	578	556	3	3

	Employee entitlements ¹ \$m	Restructuring ² \$m	Other ³ \$m	Total \$m
(b) Movements in provisions – consolidated				
Balance at the beginning of the year	267	50	239	556
Additional provisions made during the year	408	29	169	606
Unused amounts reversed during the year	(1)	(17)	(20)	(38)
Provisions used during the year	(380)	(46)	(104)	(530)
Foreign exchange movements	2	–	(6)	(4)
Transferred to disposal group	(7)	–	(5)	(12)
Balance at the end of the year	289	16	273	578
(c) Movements in provisions – parent				
Balance at the beginning of the year	3	–	–	3
Additional provisions made during the year	–	–	–	–
Unused amounts reversed during the year	–	–	–	–
Provisions used during the year	–	–	–	–
Balance at the end of the year	3	–	–	3

- 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. \$17m (2011: \$15m) of the consolidated balance is expected to be settled more than 12 months from the reporting date. \$2m (2011: \$2m) of the parent balance is expected to be settled more than 12 months from the reporting date.
- 2 Restructuring provisions are recognised in respect of programs that materially change the scope of the business or the manner in which the business is conducted. Nil (2011: \$4m) is expected to be settled more than 12 months from the reporting date.
- 3 Other provisions are in respect of probable outgoings on data quality and integrity projects, settlements, and various other operational provisions. \$12m (2011: \$26m) is expected to be settled more than 12 months from the reporting date.

16. Borrowings

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Bank overdrafts	7	4	—	—
Bank loans	520	850	—	—
Bonds and notes	6,113	6,228	—	—
Deposits ¹	4,687	4,271	—	—
Other borrowings	55	57	—	—
Total borrowings²	11,382	11,410	—	—

- 1 Deposits mainly comprise at call retail cash on deposit and retail term deposits at variable interest rates within the AMP Bank.
- 2 Total borrowings comprise amounts to fund:
 - i Corporate and other shareholder activities of AMP group \$701m (2011: \$594m). Of this balance \$701m (2011: \$204m) is expected to be settled more than 12 months from the reporting date
 - ii AMP Bank and securitisation trusts borrowings \$9,667m (2011: \$9,277m). Of this balance \$4,816m (2011: \$4,204m) is expected to be settled more than 12 months from the reporting date
 - iii Statutory fund borrowings and borrowings within controlled entities of AMP Life are \$1,011m (2011: \$1,539m). Of this balance \$671m (2011: \$1,182m) is expected to be settled more than 12 months from the reporting date, and
 - iv AMP Capital borrowing from Mitsubishi UFJ Trust and Banking Corporation (MUTB) \$3m (2011: nil) as part of the MUTB strategic business and capital alliance. All of this balance is expected to be settled more than 12 months from the reporting date.

17. Subordinated debt

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
AMP Bank Floating Rate Subordinated Unsecured Notes (first call date 2017, maturity 2022) ¹	150	—	—	—
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	67	63	—	—
Floating Rate Subordinated Unsecured Notes (first call date 2016, maturity 2021) ²	600	599	—	—
A\$ AMP Notes (first call date 2014, maturity 2019) ³	202	199	—	—
NZ\$ AMP Notes (first call date 2014, maturity 2019) ³	92	88	—	—
Total subordinated debt⁴	1,111	949	—	—

- 1 AMP Bank floating rate subordinated unsecured notes have a 10 year maturity and non-callable for five years. \$150m is net of issue costs and accrued interest.
- 2 In the event that AMP does not call the subordinated debt at the first call date the note holders have the right to exchange the notes for AMP shares at a small discount to volume weighted average price at that time.
- 3 In the event that AMP does not call the subordinated debt at the first call date the note holders have the right to an interest margin 150 per cent higher than that at issue.
- 4 Subordinated debt amounts are to fund corporate activities of AMP group. All of this balance (2011: all) is expected to be settled more than 12 months from the reporting date.

18. Dividends

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Final dividends paid				
2011 final dividend paid in 2012: 14 cents per ordinary share franked to 50% (2010 final dividend paid in 2011: 15 cents per ordinary share franked to 60%)	400	314	400	314
Interim dividends paid				
2012: 12.5 cents per ordinary share franked to 55% (2011: 15.0 cents per ordinary share franked to 30%)	362	422	362	422
Total dividends paid^{1,2}	762	736	762	736
Final dividends proposed but not recognised				
2012: 12.5 cents per ordinary share franked to 65%	366	n/a	366	n/a
Dividend franking account^{3,4}				
Franking credits available to shareholders of AMP Limited (at 30%)	191	165	191	165

- 1 Total dividends paid includes dividends paid on 'treasury shares'. See Statement of changes in equity for further information regarding the impact of 'treasury shares' on dividends paid and retained earnings.
- 2 All dividends are franked at a tax rate of 30 per cent.
- 3 The franking credits available to shareholders are based on the balance of the dividend franking account at the reporting date adjusted for:
 - i franking credits that will arise from the payment of the current tax liability
 - ii franking debits that will arise from the payment of dividends recognised as a liability at the year end
 - iii franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end, and
 - iv franking credits that the entity may be prevented from distributing in subsequent years.
- 4 The company's ability to utilise the franking account credits depends on meeting Corporations Act requirements to declare dividends. The impact of the proposed dividend will be to reduce the balance of the franking credit account by \$102m.

19. Contributed equity

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Movements in issued capital				
Balance at the beginning of the year	9,297	5,209	9,297	5,209
Nil (2011: 695,262,564) shares issued for acquisition of AMP AAPH Limited ¹	–	3,802	–	3,802
75,750,762 (2011: 64,986,020) shares issued under dividend reinvestment plan ²	313	286	313	286
Balance at the end of the year	9,610	9,297	9,610	9,297
Total issued capital				
2,930,423,546 (2011: 2,854,672,784) ordinary shares fully paid	9,610	9,297	9,610	9,297
Movements in 'treasury shares'				
Balance at the beginning of the year	(217)	(158)	–	–
(Increase) arising from acquisition of AMP AAPH Limited	–	(10)	–	–
(Increase) decrease due to purchases less sales during the year	(54)	(49)	–	–
Balance at the end of the period	(271)	(217)	–	–
Total treasury shares³				
55,473,106 (2011: 40,653,518) treasury shares	(271)	(217)	–	–
Total contributed equity				
2,874,950,440 (2011: 2,814,019,266) ordinary shares fully paid	9,339	9,080	9,610	9,297

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

- 1 Shares issued in 2011 to minority shareholders of AMP AAPH Limited for the acquisition of its business recognised at fair value of \$3,803m less deduction for costs of issue \$1m.
- 2 Under the terms of the dividend reinvestment plan (DRP), shareholders may elect to have all or part of their dividend entitlements satisfied by the issue of new shares rather than being paid cash. Shares were issued under the DRP for the 2011 final dividend (paid in April 2012) at \$3.94 per share, 2012 interim dividend (paid in October 2012) at \$4.35 per share.
- 3 Of the AMP Limited ordinary shares on issue 55,473,106 (2011: 40,653,518) are held by controlled entities of AMP Limited. AMP's life insurance entities hold 53,720,838 (2011: 38,901,250) shares on behalf of policyholders. ASIC has granted relief from restrictions in the *Corporations Act 2001* to allow AMP's life insurance entities to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. The cost of the investment in these 'treasury shares' is reflected as a deduction from total contributed equity.

20. Life insurance contracts

The AMP group's life insurance related activities are conducted through two registered life insurance companies, AMP Life Limited (AMP Life) and, from 30 March 2011, The National Mutual Life Association of Australasia Limited (NMLA).

(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(s) for a description of MoS and the methods for calculating life insurance contract liabilities.

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

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment account	Modified accumulation	n/a
Retail risk (lump sum)	Projection	Expected premiums
Retail risk (income benefits)	Projection	Expected claims
Group risk (lump sum)	Accumulation	n/a
Group risk (income benefits)	Accumulation	n/a
Participating allocated annuities – AMP Life	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 ¹	31 December 2012		31 December 2011		
		Australia	New Zealand	Australia	New Zealand	
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	2.6%–4.4%	2.5%–4.1%	3.2%–4.6%	2.5%–4.1%	
Retail risk and group risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	2.9%–4.7%	2.8%–4.4%	3.8%–5.2%	2.8%–4.4%	
Life annuities ²	Non-CPI	Zero coupon government bond yield curve (including liquidity premium)	3.0%–4.8%	2.9%–4.5%	3.8%–5.1%	2.8%–4.8%
	CPI	Commonwealth indexed bond yield curve (including liquidity premium)	0.8%–1.8%	1.0%–2.0%	1.5%–2.2%	1.3%

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

2 Australian non-CPI annuities and all CPI annuities are AMP Life only.

20. Life insurance contracts continued

(ii) Participating business discount rates

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

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

	10 year government bonds	Risk premiums				
		Local equities	International equities	Property	Fixed interest	Cash
Australia						
31 December 2012	3.3%	4.5%	3.5%	2.5%	AMP Life: 0.8% NMLA: 0.9%	(0.5%)
31 December 2011	3.7%	4.5%	3.5%	2.5%	AMP Life: 0.8% NMLA: 1.1%	(0.5%)
New Zealand						
31 December 2012	3.6%	4.5%	3.5%	2.5%	AMP Life: 0.8% NMLA: 0.0%	(0.5%)
31 December 2011	3.8%	4.5%	3.5%	2.5%	AMP Life: 0.8% NMLA: 0.0%	(0.5%)

The risk premiums for local equities include allowance for imputation credits. The risk premiums for fixed interest reflect credit ratings of the portfolio held.

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

		Equities	Property	Fixed interest	Cash
Australia					
31 December 2012	AMP Life	30%	11%	39%	20%
	NMLA	37%	13%	35%	15%
31 December 2011	AMP Life	30%	11%	39%	20%
	NMLA	37%	13%	35%	15%
New Zealand					
31 December 2012	AMP Life	40%	17%	37%	6%
	NMLA	48%	2%	40%	10%
31 December 2011	AMP Life	40%	17%	37%	6%
	NMLA	48%	2%	40%	10%

The asset mix in the table above includes both conventional and investment account business for AMP Life, but only conventional business for NMLA. As described in note 1(s), 100 per cent of investment profits on NMLA's investment account business are allocated to policyholders.

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 capital adequacy.

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

20. Life insurance contracts continued

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

		Bonus on sum insured	Bonus on existing bonuses
Reversionary bonus			
Australia	AMP Life	0.4%–0.9% (0.2%–0.8%)	0.7%–0.9% (0.4%–0.8%)
	NMLA	0.6%–1.4% (0.6%–1.4%)	1.2%–2.0% (1.2%–2.0%)
New Zealand	AMP Life	0.4%–0.7% (0.3%–0.5%)	0.4%–0.7% (0.3%–0.5%)
	NMLA	0.9% (0.9%)	1.3% (1.3%)

Terminal bonus

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

Crediting rates (investment account)

Australia	AMP Life	2.2%–4.6% (1.6%–3.7%)
	NMLA	3.9%–7.8% (5.2%–9.8%)
New Zealand	AMP Life	2.9%–3.1% (2.4%–2.9%)
	NMLA	3.0%–5.0% (3.3%–5.5%)

(iv) Future maintenance and investment expenses

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

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

(v) Inflation and indexation

Benefits and premiums under many regular premium policies are automatically indexed by the published consumer price index (CPI). Assumed future take-up of these indexation options is based on AMP Life's and NMLA'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 and NMLA'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 shown in the following table:

		Australia	New Zealand
31 December 2012	AMP Life and NMLA	2.7% CPI, 3.0% expenses	2.5% CPI, 3.0% expenses
31 December 2011	AMP Life and NMLA	2.6% CPI, 3.0% expenses	2.5% 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 and NMLA's own historical experience. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration, premium structure, smoker status, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across AMP Life and NMLA are extremely diverse.

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

Business type	Life company	31 December 2012		31 December 2011	
		Australia	New Zealand	Australia	New Zealand
Conventional	AMP Life	2.1%–3.0%	1.3%–2.5%	2.1%–3.0%	1.3%–2.5%
	NMLA	3.6%–4.1%	4.2%–4.9%	3.6%–4.1%	4.2%–4.9%
Investment account	NMLA	4.8%–22.7%	7.0%–8.0%	5.2%–23.9%	7.0%–8.0%
Retail risk (lump sum)	AMP Life	11.9%–22.0%	10.5%–12.0%	9.0%–20.0%	10.5%–12.0%
Retail risk (income benefit)	AMP Life	8.0%–20.0%	7.0%–12.0%	10.0%–11.0%	7.0%–12.0%
Retail risk (lump sum)	NMLA	11.5%–13.4%	11.3%	9.9%–11.2%	11.3%
Retail risk (income benefit)	NMLA	8.8%–9.4%	10.3%–10.6%	8.8%–9.4%	10.3%–10.6%
Flexible Lifetime Super (FLS) risk business (ultimate rate)	AMP Life	8.8%–22.7%	n/a	7.5%–13.0%	n/a

Voluntary discontinuance assumptions have increased from those used at 31 December 2011 for AMP Life retail risk and NMLA retail risk (lump sum only).

20. Life insurance contracts continued

(viii) Surrender values

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

(ix) Mortality and morbidity

Standard mortality tables, based on national or industry wide data, are used (eg IA95-97, IM(F)L00, IA90-92 and PNM(F)L in Australia and New Zealand). These are then adjusted by factors that take account of AMP Life's and NMLA's own experience.

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

- AMP Life Australian and New Zealand conventional business – added an adjustment to allow for future mortality improvements
- AMP Life Term (Retail risk lump sum) in Australia has reduced
- NMLA Term (ex-AC&L retail risk lump sum business only) has reduced.

Typical mortality assumptions, in aggregate, are shown in the following table:

	Conventional – % of IA95-97 ¹ (AMP Life)		Conventional – % of IA90-92 (NMLA)		Term – % of IA95-97 (AMP Life)		FLS Risk – % of IA95-97 (AMP Life)		Individual – % of IA90-92 (NMLA)	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Risk products										
Australia	67.5%	67.5%	60%	68%	60%	60%	63%	63%	60%	60%–64%
New Zealand	73%	73%	81%	95%	63%	63%	63%	63%	68%	60%–77%

1 Base IA95-97 table modified for future mortality improvements.

	AMP Life		NMLA	
	Male – % of IML00*	Female – % of IFL00*	Male – % of PNML00	Female – % of PNFL00
Annuities				
Australia and New Zealand	95%	80%	80%	80%

For disability income business, the claim assumptions are currently based on IAD89-93, which is derived from Australian experience. It is adjusted for AMP Life's and NMLA's experience, with the adjustment dependent on age, sex, waiting period, occupation, smoking status and claim duration. For AMP Life, rates have changed for Australia from those at 31 December 2011 resulting in a higher incidence rate for future claims overall and a lower rate for termination of claims. For NMLA, incidence and termination rates are unchanged from those at 31 December 2011.

Typical morbidity assumptions, in aggregate, are shown in the following table:

	Incidence rates – % of IAD89-93 (AMP Life)	Incidence rates – % of IAD89-93 (NMLA)	Termination rates (ultimate) – % of IAD 89-93 (AMP Life)	Termination rates (ultimate) – % of IAD 89-93 (NMLA)
	Income protection			
Australia	52%–113%	60%–253%	63%–94%	18%–235%
New Zealand	60%	30%–312%	54%–90%	60%–172%

For trauma cover, standard tables are not available and so assumptions are mostly based on Australian population statistics, with adjustment for smoking status as well as recent claims experience. Trauma assumptions at 31 December 2012 have increased from those used at 31 December 2011.

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995–1997.
IA90-92	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1990–1992.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999–2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IML00* and IFL00* are these published tables amended for some specific AMP experience.
PNML/PNFL	The UK 00 series tables represent the latest annuitant/pensioner experience and therefore replace the 80 series tables, which are based on experience from 1979 to 1982. Pensioner tables are used given that the NZ annuitants did not voluntarily obtain annuities as they received one automatically from their pension plan.
IAD 89-93	A disability table developed by the Institute of Actuaries of Australia based on the Australian disability income experience for the period 1989–1993.

20. Life insurance contracts continued

(x) Impact of changes in assumptions

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

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

The impact on future profit margins of changes in assumptions from 31 December 2011 to 31 December 2012 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the following table for the two life companies.

Assumption change	AMP Life			NMLA		
	Change in future profit margins \$m	Change in life insurance contract liabilities \$m	Change in shareholders' profit & equity \$m	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	(21)	–	–	(2)	(12)	9
Mortality and morbidity	(38)	–	–	(6)	–	–
Discontinuance rates	(211)	–	–	(314)	–	–
Maintenance expenses	35	–	–	(22)	(2)	1
Other assumptions ¹	56	–	–	90	3	(2)

1 Other assumptions changes include the impact of product and premium rate changes.

In most cases, the overall amount of life insurance contract liabilities and the current period profit are not affected by changes in assumptions. However, where in the case of a particular related product group, the changes in assumptions at the end of a period eliminate any future profit margins for the related product group, and results in negative future profit margins, this negative balance is recognised as a loss in the current period. If the changes in assumptions in a period are favourable for a product group currently in loss recognition, then the previously recognised losses are reversed in the period.

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

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax, and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
AMP Life					
Mortality	10% increase in mortality rates	(1)	(1)	1	1
Annuitant mortality	50% increase in the rate of mortality improvement	1	1	(1)	(1)
Morbidity – lump sum disablement	20% increase in lump sum disablement rates	–	–	–	–
Morbidity – disability income	10% increase in incidence rates	–	–	–	–
Morbidity – disability income	10% decrease in recovery rates	–	–	–	–
Discontinuance rates	10% increase in discontinuance rates	–	–	–	–
Maintenance expenses	10% increase in maintenance expenses	–	–	–	–
NMLA					
Mortality	10% increase in mortality rates	–	–	–	–
Annuitant mortality	50% increase in the rate of mortality improvement	–	–	–	–
Morbidity – lump sum disablement	20% increase in lump sum disablement rates	–	–	–	–
Morbidity – disability income ¹	10% increase in incidence rates	115	113	(81)	(79)
Morbidity – disability income ¹	10% decrease in recovery rates	227	211	(159)	(148)
Discontinuance rates ¹	10% increase in discontinuance rates	28	27	(20)	(19)
Maintenance expenses ¹	10% increase in maintenance expenses	27	27	(19)	(19)

1 At 31 December 2011, changes in assumptions fully absorbed future profit margins on NMLA's retail ordinary disability income products and these products remain in a capitalised loss position at 31 December 2012. Any improvement in the assumptions for these products would be recognised initially as a reversal of the previously recognised loss.

20. Life insurance contracts continued

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(c) Analysis of life insurance contract premium and related revenue				
Total life insurance contract premiums received and receivable	3,203	2,900	–	–
Less: component recognised as a change in life insurance contract liabilities	(1,098)	(1,114)	–	–
Life insurance contract premium revenue ¹	2,105	1,786	–	–
Reinsurance recoveries	113	91	–	–
Total life insurance contract premium and related revenue	2,218	1,877	–	–
(d) Analysis of life insurance contract claims and related expenses				
Total life insurance contract claims paid and payable	(3,448)	(3,099)	–	–
Less: component recognised as a change in life insurance contract liabilities	1,495	1,385	–	–
Life insurance contract claims expense	(1,953)	(1,714)	–	–
Outwards reinsurance expense	(95)	(76)	–	–
Total life insurance contract claims and related expenses	(2,048)	(1,790)	–	–
(e) Analysis of life insurance contract operating expenses				
Life insurance contract acquisition expenses				
– commission	(109)	(102)	–	–
– other expenses	(148)	(132)	–	–
Life insurance contract maintenance expenses				
– commission	(191)	(164)	–	–
– other expenses	(427)	(369)	–	–
Investment management expenses	(54)	(50)	–	–
(f) Life insurance contract liabilities				
Life insurance contract liabilities determined using projection method				
<i>Best estimate liability</i>				
– value of future life insurance contract benefits	19,423	19,310	–	–
– value of future expenses	4,958	4,959	–	–
– value of future premiums	(18,987)	(19,156)	–	–
<i>Value of future profits</i>				
– life insurance contract holder bonuses	2,320	2,054	–	–
– shareholders' profit margins	3,230	3,389	–	–
Total life insurance contract liabilities determined using the projection method²	10,944	10,556	–	–
Life insurance contract liabilities determined using accumulation method				
<i>Best estimate liability</i>				
– value of future life insurance contract benefits	11,593	11,386	–	–
– value of future acquisition expenses	(6)	(7)	–	–
Total life insurance contract liabilities determined using accumulation method	11,587	11,379	–	–
Value of declared bonus	221	359	–	–
Unvested policyholder benefits liabilities²	1,773	1,628	–	–
Total life insurance contract liabilities before reinsurance	24,525	23,922	–	–
Add: Reinsurers' share of life insurance contract liabilities	530	477	–	–
Total life insurance contract liabilities	25,055	24,399	–	–

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

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

20. Life insurance contracts continued

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(g) Reconciliation of changes in life insurance contract liabilities				
Total life insurance contract liabilities at the beginning of the year	24,399	17,762	–	–
Additions through the acquisition of the AXA APH Australia and New Zealand businesses	–	6,840	–	–
Change in life insurance contract liabilities recognised in the Income statement	934	(25)	–	–
Premiums recognised as an increase in life insurance contract liabilities	1,098	1,114	–	–
Claims recognised as a decrease in life insurance contract liabilities	(1,495)	(1,385)	–	–
Change in reinsurers share of life insurance contract liabilities	53	69	–	–
Foreign exchange adjustment	66	24	–	–
Total life insurance contract liabilities at the end of the year	25,055	24,399	–	–

(h) Life insurance risk

The life insurance activities of AMP Life and NMLA 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 and NMLA 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, NMLA and industry experience and specific product design features. The variability inherent in insurance risk, including concentration risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

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

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

AMP Life and NMLA reinsure (cede) to specialist reinsurance companies a proportion of their portfolios or certain types of insurance risk, including catastrophe. This serves primarily to:

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

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

20. Life insurance contracts continued

Terms and conditions of life insurance contracts

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

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

(i) Liquidity risk and future net cash outflows

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

Total AMP Life and NMLA	Up to 1 year \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
2012	1,026	2,411	8,169	11,606
2011	1,029	2,532	7,453	11,014

21. Other life insurance and investment contract disclosures

	Consolidated	
	2012 \$m	2011 \$m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
– planned margins of revenues over expenses released	498	478
– profits (losses) arising from difference between actual and assumed experience	(32)	114
– capitalised (losses) reversals	21	2
Profit related to life insurance and investment contract liabilities	487	594
Attributable to:		
– life insurance contracts	324	438
– investment contracts	163	156
Investment earnings on assets in excess of life insurance and investment contract liabilities	134	113

(b) AMP life insurance entities statutory funds

AMP Life and NMLA conduct 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 and NMLA to be conducted within life statutory funds.

AMP Life has three statutory funds as set out in the following table:

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

NMLA has six statutory funds as set out in the following table:

No. 1 fund	Australia	Capital guaranteed ordinary business (whole of life, endowment, investment account, retail and group risk).
	New Zealand	All business (whole of life, endowment, investment account, retail and group risk, retail and group investment-linked and immediate annuities).
No. 2 fund	Australia	Investment-linked superannuation business (individual and group investment-linked and deferred annuities).
No. 3 fund	Taiwan	All business (individual whole of life, endowment, term and group life).
No. 4 fund	Australia	Capital guaranteed superannuation business (whole of life, endowment, investment account, and retail (lump sum only) and group risk).
No. 5 fund	Australia	Investment-linked ordinary business.
No. 6 fund	Australia	North longevity guarantee.

21. Other life insurance and investment contract disclosures continued

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 21(d).

Australian Accounting Standards require the income, expenses, assets and liabilities in the financial statements of AMP Life and NMLA 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:

	2012 AMP Life and NMLA			2011 AMP Life and NMLA		
	Non- investment linked \$m	Investment linked \$m	Total life entities' statutory funds \$m	Non- investment linked \$m	Investment linked \$m	Total life entities' statutory funds \$m
Assets of life entities' statutory funds						
Net assets of life entities' statutory funds attributable to policyholders and shareholders	32,297	54,731	87,028	30,943	49,613	80,556
Attributable to policyholders						
Life insurance contract liabilities	25,055	–	25,055	24,399	–	24,399
Investment contract liabilities	4,093	54,207	58,300	3,728	49,131	52,859
	29,148	54,207	83,355	28,127	49,131	77,258
Attributable to shareholders	3,149	524	3,673	2,816	482	3,298

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.

Impact of the life statutory funds amounts on the AMP 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 NMLA and therefore become part of the consolidated balances of this AMP group financial report. The consolidated balances include 100 per cent of the underlying investments in financial assets, investment property, and other net operating assets of the controlled entities of AMP life entities' statutory funds. Most of the controlled entities are managed investment schemes and the share of the consolidated profit and net assets of those managed investment schemes 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.

21. Other life insurance and investment contract disclosures continued

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

	Life entities' statutory funds consolidated	
	2012 \$m	2011 \$m
Income statement		
Insurance premium and related revenue	2,218	1,877
Fee revenue	1,006	944
Other revenue	265	326
Investment gains and (losses)	11,305	629
Insurance claims and related expenses	(2,048)	(1,790)
Operating expenses including finance costs	(2,463)	(2,450)
Movement in external unitholders' liabilities	(922)	196
Change in life insurance contract liabilities	(934)	25
Change in investment contract liabilities	(6,997)	931
Income tax (expense) credit	(840)	(34)
Profit	590	654
Assets		
Cash and cash equivalents	7,254	7,128
Investments in financial assets measured at fair value through profit or loss	84,806	76,349
Investment property	6,829	7,734
Other assets	2,414	3,480
Total assets of policyholders, shareholders and non-controlling interests	101,303	94,691
Liabilities		
Life insurance contract liabilities	25,055	24,399
Investment contract liabilities	58,300	52,859
Other liabilities	5,518	6,173
External unitholders' liabilities	8,741	7,902
Total liabilities of policyholders, shareholders and non-controlling interests	97,614	91,333
Net assets	3,689	3,358

21. Other life insurance and investment contract disclosures continued

	Consolidated	
	2012 \$m	2011 \$m
(c) Capital guarantees		
Life insurance contracts with a discretionary participating feature		
– amount of the liabilities that relate to guarantees	19,856	19,840
Investment linked contracts		
– amount of the liabilities subject to investment performance guarantees	1,228	1,232
Other life insurance contracts with a guaranteed termination value		
– current termination value	154	169

(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 and NMLA hold 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 in each life company:

- the solvency requirement
- the 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 actuaries of AMP Life and NMLA have confirmed that the available assets of each life statutory fund have exceeded the solvency reserve required at all times during the reporting period. Across all the life statutory funds, the excess assets, expressed as a percentage of the solvency reserve, at 31 December 2012 were 53 per cent for AMP Life and 166 per cent for NMLA (31 December 2011: 62 per cent for AMP Life and 100 per cent for NMLA).

Capital adequacy requirements

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for each life entity to be allowed to make distributions to its 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 actuaries of AMP Life and NMLA have confirmed that the available assets of each life statutory fund have exceeded the capital adequacy reserve required at all times during the reporting period. For this purpose, the capital adequacy reserve is defined as the solvency reserve, plus the difference between the capital adequacy requirement and the solvency requirement. Across all the life statutory funds, the excess assets, expressed as a percentage of the capital adequacy reserve, as at 31 December 2012 was 33 per cent for AMP Life and 53 per cent for NMLA (31 December 2011: 34 per cent for AMP Life and 27 per cent for NMLA).

(e) Actuarial information

Mr Rocco Mangano, as the Appointed Actuary of AMP Life and Mr Daniel Shuttleworth, as the Appointed Actuary of NMLA, are 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 20.

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

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

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately \$11,936m (2011: \$11,158m) of policy liabilities may be settled within 12 months of the reporting date.

22. Risk management and financial instruments information

Financial risk management

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

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

The FRM framework includes delegations, roles and responsibilities, escalations and reporting, as well as outlining AMP group's FRM objectives. In addition, the FRM framework provides an overview of each of the key financial risks including the nature of the risks, objectives in seeking to manage the risks, the key policy variables for the management of the risks and the business unit responsibility for managing and reporting them.

Executive Committees oversee the management and monitoring of financial risks and capital management. These committees include Group Asset and Liability Committee (Group ALCO) for AMP group, AFS ALCO for both AMP Life and The National Mutual Life Association of Australasia (NMLA), Bank ALCO for AMP Bank and the Financial Risk and Capital Committee (FRCC) for AMP Capital. AMP group Treasury (Group Treasury) is responsible for the execution of the FRM framework and capital and financing plans in compliance with board approved targets and limits. Group Treasury is also responsible for the execution of the approved investment strategy for AMP shareholder capital, for analysis and reporting of financial risks and the capital position to Group ALCO, the AMP Limited Audit Committee and the board, monitoring compliance with the FRM framework, and for identifying and reporting breaches of policy to Group ALCO, relevant Audit Committees and the board.

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

Operating entities are required to comply with the board approved risk appetite and are also responsible for approving policyholder asset and liability strategies (in the case of AMP Life, NMLA and for the North Guarantee).

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

Information about the capital management activities within the AMP group, including the relationship with regulatory requirements on the regulated entities, is provided in note 23.

(a) Risks and mitigation

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

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

The risk appetite of the AMP 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 create investment products for clients and grow AMP Capital's assets under management. The AMP 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 AMP group include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the FRM framework including through the use of derivative financial instruments such as cross-currency and interest rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

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

22. 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, stress test scenario nor does it represent a forecast. In addition it does not include the impact of any mitigating management actions) over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

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 group.

(i) Interest rate risk

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

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

- *AMP 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 AMP 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.

AMP group policy is to maintain between 40–60 per cent of borrowings and subordinated debt at fixed rates. This can be altered with Group ALCO approval to hedge other interest rate exposures across the group. At the reporting date, 50 per cent (2011: 57 per cent) of the AMP group's borrowings and subordinated debt were effectively at fixed rates.

Group Treasury may also, subject to Group ALCO approval, enter into interest rate derivative exposures to hedge other enterprise-wide interest rate exposures.

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

The interest rate risk of AMP Life and NMLA 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 and NMLA are required to satisfy solvency requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities.

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

- *AMP Bank* – interest rate risk arises in AMP Bank from mismatches of repricing terms (for example, a three-year fixed rate loan funded with a 90 day term deposit – term risk) and variable rate short-term repricing bases (basis risk). AMP Bank uses natural offsets, interest rate swaps and basis swaps to hedge the mismatches within exposure limits. Group Treasury manages the interest rate exposure in AMP Bank by maintaining a position, which is generally neutral, within the limits delegated and approved by the AMP Bank Board.

22. 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 AMP group.

Change in variables	2012		2011	
	Impact on profit after tax	Impact on equity	Impact on profit after tax	Impact on equity
	Increase (decrease) \$m	Increase (decrease) \$m	Increase (decrease) \$m	Increase (decrease) \$m
+100 basis points	(44)	(28)	(9)	2
-100 basis points	39	23	30	20

(ii) Currency risk

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

Other than where the impact would be immaterial, corporate debt is typically converted to Australian dollars through cross-currency swaps, individual investment assets in shareholder capital (excluding the international equities portfolio attributable to 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. Subject to Group ALCO approval, Group Treasury may allow for natural hedging of foreign exchange risk through unhedged foreign currency borrowings, or enter into discretionary foreign exchange transactions to hedge enterprise-wide exposures.

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

Currency risk sensitivity analysis

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

Change in variables	2012		2011	
	Impact on profit after tax	Impact on equity	Impact on profit after tax	Impact on equity
	Increase (decrease) \$m	Increase (decrease) \$m	Increase (decrease) \$m	Increase (decrease) \$m
10% depreciation of AUD	2	2	3	3
10% appreciation of AUD	(3)	(3)	(3)	(3)

22. Risk management and financial instruments information continued

(iii) Equity price risk

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

Equity price risk sensitivity analysis

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

	2012		2011	
	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	19	19	16	16
10% increase in International equities	13	13	3	3
10% decrease in Australian equities	(17)	(17)	(9)	(9)
10% decrease in International equities	(6)	(6)	(3)	(3)

(c) Liquidity and refinancing risk

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

To ensure that the AMP group has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, Group Treasury maintains a defined surplus of cash plus six months of debt maturities to mitigate refinancing risk, satisfy regulatory requirements and protect against liquidity shocks in accordance with the liquidity risk management policy approved by the AMP Limited Board.

Jeminex Pty Limited, a controlled entity of AMP group, did not meet its gearing ratio covenant for the September 2012 quarter. This breach is expected to persist for the December 2012 calculation, which is based on the audited financials, and the March 2013 quarter. Loans with a carrying amount of \$112m were in breach. Lenders have agreed not to take action as a result of the September breach and have indicated they will take no action regarding breaches in subsequent quarters pending the outcome of the current sale process of Jeminex's Industrial and Safety division (refer to note 28).

AMP Capital Geared Australian Share Fund, a controlled entity of AMP group, was in breach of an interest cover ratio at 31 December 2011. Loans with a carrying amount of \$138m were in breach but formal waivers from financiers have been (requested and are expected to be) obtained.

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

22. Risk management and financial instruments information continued

The following table summarises the maturity profiles of AMP 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

	Up to 1 year or no term \$m	1 to 5 years \$m	Over 5 years \$m	Other ² \$m	Total \$m
2012					
Non-derivative financial liabilities¹					
Payables	(1,859)	(9)	–	–	(1,868)
Borrowings	(5,548)	(5,345)	(2,835)	–	(13,728)
Subordinated debt	(79)	(1,198)	(88)	–	(1,365)
Investment contract liabilities	(1,579)	(1,075)	(1,790)	(54,426)	(58,870)
External unitholders' liabilities	–	–	–	(8,690)	(8,690)
Derivative financial instruments					
Cross currency swaps					
– outflows	(11)	(318)	(74)	–	(403)
– inflows	13	240	154	–	407
Interest rate swaps	9	(203)	399	–	205
Off balance sheet items					
Loan commitments – AMP Bank ⁴	(1,619)	–	–	–	(1,619)
Loan commitments – Securitisation vehicles ⁴	(1,012)	–	–	–	(1,012)
Total undiscounted financial liabilities and off balance sheet items³	(11,685)	(7,908)	(4,234)	(63,116)	(86,943)
2011					
Non-derivative financial liabilities¹					
Payables	(1,900)	(32)	–	–	(1,932)
Borrowings	(6,020)	(4,350)	(1,791)	–	(12,161)
Subordinated debt	(76)	(1,094)	(115)	–	(1,285)
Investment contract liabilities	(1,251)	(1,126)	(1,825)	(49,364)	(53,566)
External unitholders' liabilities	–	–	–	(7,224)	(7,224)
Derivative financial instruments					
Cross currency swaps					
– outflows	(423)	(421)	(209)	–	(1,053)
– inflows	340	324	745	–	1,409
Interest rate swaps	(9)	9	13	–	13
Off balance sheet items					
Loan commitments – AMP Bank ⁴	(1,649)	–	–	–	(1,649)
Loan commitments – Securitisation vehicles ⁴	(885)	–	–	–	(885)
Total undiscounted financial liabilities and off balance sheet items³	(11,873)	(6,690)	(3,182)	(56,588)	(78,333)

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

2 Investment contract liabilities of \$54,426m (2011: \$49,364m) 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 entities' statutory funds and would only be paid when the corresponding assets are realised.

3 Estimated net cash outflow profile of life insurance contract liabilities, disclosed in note 21, are excluded from the above table.

4 Loan commitments relate to commitments to provide credit to customers of AMP Bank.

22. 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 the value of a traded financial instrument as a result of changes in credit risk on that instrument.

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

Credit risk management is decentralised in business units within the AMP group. However, credit risk directly and indirectly (ie in the participating business) impacting shareholder capital is measured and managed by Group Treasury on a group basis, by aggregating risk from credit exposures taken in business units, as detailed below.

- *AMP Life and NMLA* – credit risk on the invested fixed income portfolios in the AMP Life and NMLA statutory funds is managed by the AMP Capital Risk and Compliance Committee (AMP Capital R&C) and reported to the fund managers, within specified credit criteria in the mandate approved by the AMP Life and NMLA boards. The shareholder portion of credit risk in AMP Life and NMLA is reported to Group ALCO by Group Treasury.
- *AMP Capital* – credit risk on fixed income portfolios managed by AMP Capital (consistent with interest rate and foreign currency risk) is managed by the AMP Capital 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 Group Treasury and reported to Group ALCO.
- *AMP Bank* – credit risk arising in AMP Bank as part of lending activities and management of liquidity is managed as prescribed by AMP Bank's Risk Management Systems Description (RMSD) and reported to AMP Bank ALCO monthly. Exposures relating directly to shareholder funds are included in the aggregation by Group Treasury and reported to 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, at the time of entering those contracts, are limited to companies with investment grade credit (BBB- or greater). The credit risks associated with these counterparties are assessed under the same management policies as applied to direct investments in AMP group's portfolio.

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

(ii) Exposure to credit risk

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

	2012 \$m	2011 \$m
AAA	3,609	4,770
AA- to AA+	12,078	10,423
A- to A+	3,098	4,101
BBB- to BBB+	1,298	1,556
BB+ and below	83	185
Total financial assets with credit risk exposure monitored by AMP Treasury	20,166	21,035

22. Risk management and financial instruments information continued

(iii) Credit risk of the loan portfolio in AMP Bank

The Bank is predominantly a lender for residential properties – both owner occupied and for investment. In every case the Bank completes a credit assessment, which includes cost of living allowance and requires valuation of the proposed security property. About 30 per cent of the Bank's residential loan portfolio is securitised and all loans in securitisation vehicles are mortgage insured thereby further mitigating the risk. The Bank's Credit Committee and board oversee trends in lending exposures and compliance with concentration limits as a further basis of limiting lending risk. The Bank secures its loan with mortgages over relevant properties and as a result manages credit risk on its loan with conservative lending policies and particular focus on the loan to value ratio (LVR). The LVR is calculated by dividing the total loan amount outstanding by the lower of the Bank's approved valuation amount or the purchase price. Loans with LVR greater than 80 per cent are fully mortgage insured. The potential credit exposure to the loan mortgage insurers has been assessed to be minimal due to the stable historical relationship with the Bank and minimal level of historic claims rejections and reductions. The minimum level credit rating for the loans and lender mortgage insurers is AA- under Standard & Poor's rating and A3 under Moody's rating. The average LVR of the Bank's loan portfolio for existing and new business is set out in the following table:

LVR	Existing business 2012	New business 2012	Existing business 2011	New business 2011
0–50	17%	11%	18%	10%
51–60	11%	8%	11%	8%
61–70	15%	12%	16%	12%
71–80	40%	50%	40%	51%
81–90	14%	17%	12%	16%
91–95	2%	1%	2%	2%
> 95	1%	1%	1%	1%

(iv) Past due but not impaired financial assets

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

	Past due but not impaired				Total \$m
	Less than 31 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 91 days \$m	
2012					
Receivables					
– Trade debtors	12	3	–	15	30
– Other receivables	11	2	–	2	15
Debt securities					
– Loans and advances	332	55	16	52	455
Total¹	355	60	16	69	500
2011					
Receivables					
– Trade debtors	10	3	3	6	22
– Other receivables	2	–	–	5	7
Debt securities					
– Loans and advances	343	28	4	16	391
Total¹	355	31	7	27	420

1 For investment-linked business in AMP Life and NMLA, 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.

22. Risk management and financial instruments information continued

(v) 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 and NMLA:

	2012 \$m	2011 \$m
Cumulative adjustment	20	27
Change during the period	(7)	8

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.

(vi) Impaired financial assets and impairment assessment

The Bank maintains individual provisions and collective loan impairment provisions against impaired loans.

The AMP Bank Credit Committee reviews the portfolio for provisioning at least quarterly. The review considers:

- current provisioning amount
- portfolio growth and performance – for both on and off balance sheet exposures
- current arrears position and specific loan provisions
- current and forecast state of economy, interest rate movements etc.

It also makes recommendations to the AMP Bank Board and Audit Committee.

(vii) Collective impairment loan loss provision

The collective impairment loan loss provision methodology is a statistically based model that removes subjectivity from the provisioning process and makes the provision reflective of historical loss performance.

The model utilises historical losses incurred by AMP Bank and researches external data sources to develop a series of probability of default and loss, given default factors that can be applied to loans and advances in arrears. The model also includes the ability to apply a management overlay if it is deemed that the economic environment is not representative of historical loss performance.

The model is reviewed quarterly and specific factors are formally validated every six months and reported to the AMP Bank Audit Committee.

(viii) Specific provision

The specific provision is created when there is clear evidence that AMP Bank will suffer a loss with little chance of recovery and the amount of the loss is measurable. This provision is reviewed quarterly and recommendations are made to the AMP Bank Audit Committee.

(ix) Collateral

AMP Life enters into debt security repurchase agreements and part of the agreement includes the receipt of collateral which is required to be returned to the counterparty on settlement.

AMP Bank uses residential property as collateral against its loans to customers. AMP Bank may take control of the collateral in the event the customer defaults.

(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 AMP life insurance entities as part of life insurance operations

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

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

(ii) Derivative transactions undertaken in relation to the North product capital guarantee

AMP group supports the North product (North) which enables clients to invest their superannuation, pension and ordinary savings in a range of managed funds, with part or all of the total value of the investments guaranteed. The North guarantees are either term-based capital guarantees or provide a guaranteed level of income throughout the life of a client's retirement. At 31 December 2012 \$1.51b (2011:\$1.31b) of funds under management were invested subject to the North guarantees. A fair value of \$85m (2011: \$82m) was recorded for the North guarantee liability at 31 December 2012.

Hedging techniques are used to protect the AMP group against changes in the expected guarantee claim payments from market movements. AMP group also has the ability to review the periodic charge for new and existing clients. To the extent that the fair value of the guarantee is based on assumptions that may not be borne out in practice and that the hedge instruments used are not a perfect match for the expected guarantee payments, there is a residual risk that deviations from these assumptions may result in a profit or loss to shareholders.

22. Risk management and financial instruments information continued

Hedging of the North Capital guarantee is performed based on the 'economic value' of the guarantee. The 'economic value' is consistent with the accounting fair value except that the calculation of accounting fair value applies a minimum liability, on a contract by contract basis, of the amount that would be payable on demand at reporting date, whereas the 'economic value' does not include this minimum. The difference in the movement of accounting fair value and the movement in the 'economic value' of the guarantee also results in a profit or loss to the shareholder.

(iii) Other derivative transactions undertaken by non-life insurance controlled entities

AMP Treasury and AMP Bank use 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.

(iv) Risk relating to derivative financial instruments

The market risk of derivatives is managed and controlled as an integral part of the financial risk of the AMP group. The credit risk of derivatives is also managed in the context of the AMP group's overall credit risk policies.

(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 AMP 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 AMP 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 2012, the AMP group recognised a net loss of \$7m (2011: \$1m gain) on hedging instruments. The net gain on hedged items attributable to the hedged risks amounted to \$6m (2011:\$2m loss).

(ii) Derivative instruments accounted for as cash flow hedges

The AMP 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 AMP group uses interest rate swaps and cash flow hedges to manage 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 \$m	1–2 years \$m	2–3 years \$m	3–4 years \$m	4–5 years \$m
2012					
Cash inflows	139	77	44	9	4
Cash outflows	(173)	(95)	(48)	(10)	(5)
Net cash inflow/(outflow)	(34)	(18)	(4)	(1)	(1)
2011					
Cash inflows	105	50	32	7	–
Cash outflows	(115)	(54)	(30)	(6)	–
Net cash inflow/(outflow)	(10)	(4)	2	1	–

Nil (2011: nil) was recognised in the Income statement due to hedge ineffectiveness from cash flow hedges.

22. Risk management and financial instruments information continued

(iii) Hedges of net investments in foreign operations

AMP 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 seed pool hedges are transferred to equity to offset any gains or losses on translation of the net investment in foreign operations.

AMP group recognised a profit of nil (2011: nil) due to the ineffective portion of hedges relating to investments in seed pool 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 2012 \$m	Aggregate fair value 2012 \$m	Carrying amount 2011 \$m	Aggregate fair value 2011 \$m
Financial assets				
Debt securities – held to maturity	1,839	1,866	1,651	1,504
Loans and advances	12,462	12,236	11,254	11,174
Total financial assets	14,301	14,102	12,905	12,678
Financial liabilities				
Bank loans	520	696	850	850
Bonds and notes	6,113	6,373	6,228	6,462
Deposits	4,687	4,687	4,271	4,271
Subordinated floating rate note	1,111	1,124	949	1,061
Other borrowings	55	55	57	57
Total financial liabilities	12,486	12,935	12,355	12,701

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.

(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 measured at an amount in excess of fair value due to fluctuations on fixed rate loans. As the fluctuations in fair value do not represent a permanent diminution and the carrying amounts of the loans are recorded at recoverable amounts after assessing impairment, it is not appropriate to restate their carrying amount.

(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.

22. 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 arm's length basis.

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

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

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
2012				
Assets				
Equity securities and listed managed investment schemes	36,050	248	785	37,083
Debt securities	–	29,997	212	30,209
Investments in unlisted managed investment schemes	–	14,643	662	15,305
Derivative financial assets	180	1,964	–	2,144
Other financial assets	–	145	–	145
Total financial assets	36,230	46,997	1,659	84,886
Liabilities				
Derivative financial liabilities	62	1,201	–	1,263
Collateral deposits held	1,054	–	–	1,054
Investment contract liabilities	–	3,566	54,819	58,385
Total financial liabilities	1,116	4,767	54,819	60,702
2011				
Assets				
Equity securities and listed managed investment schemes	31,474	12	737	32,223
Debt securities	1,130	27,641	311	29,082
Investments in unlisted managed investment schemes	–	12,001	792	12,793
Derivative financial assets	283	1,968	–	2,251
Other financial assets	–	179	–	179
Total financial assets	32,887	41,801	1,840	76,528
Liabilities				
Derivative financial liabilities	54	1,101	–	1,155
Collateral deposits held	1,449	–	–	1,449
Investment contract liabilities	–	3,065	49,875	52,940
Total financial liabilities	1,503	4,166	49,875	55,544

22. 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:

	Balance at the beginning of the period \$m	Balance on acquisition of AXA \$m	FX gains or losses \$m	Total gains/losses \$m	Purchases/deposits \$m	Sales/withdrawals \$m	Net transfers in/(out) \$m	Balance at the end of the period \$m	Total gains and losses on assets and liabilities held at reporting date \$m
2012									
Assets									
Equity securities and listed managed investment schemes	737	–	–	(8)	83	(22)	(5)	785	(8)
Debt securities	311	–	–	(2)	20	(143)	26	212	6
Investments in unlisted managed investment schemes	792	–	–	(38)	86	(24)	(154)	662	(47)
Total financial assets	1,840	–	–	(48)	189	(189)	(133)	1,659	(49)
Liabilities									
Investment contract liabilities	49,875	–	5	6,029	8,618	(9,614)	(94)	54,819	5,732
Total financial liabilities	49,875	–	5	6,029	8,618	(9,614)	(94)	54,819	5,732
2011									
Assets									
Equity securities and listed managed investment schemes	659	41	–	28	43	(12)	(22)	737	28
Debt securities	228	85	–	(6)	27	(60)	37	311	(6)
Investments in unlisted managed investment schemes	341	240	–	15	117	(74)	153	792	15
Derivative financial assets	–	–	–	–	–	–	–	–	–
Total financial assets	1,228	366	–	37	187	(146)	168	1,840	37
Liabilities									
Investment contract liabilities	46,584	6,116	6	(1,734)	9,221	(10,304)	(14)	49,875	1,535
Total financial liabilities	46,584	6,116	6	(1,734)	9,221	(10,304)	(14)	49,875	1,535

22. 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:

	Carrying amount \$m	Effect of reasonably possible alternative assumptions ¹	
		(+) \$m	(-) \$m
2012			
Assets			
Equity securities and listed managed investment schemes	785	29	(29)
Debt securities	212	–	–
Investments in unlisted managed investment schemes	662	–	–
	1,659	29	(29)
Liabilities			
Investment contract liabilities	54,819	6	(6)
	54,819	6	(6)
2011			
Assets			
Equity securities and listed managed investment schemes	737	41	(17)
Debt securities	311	–	–
Investments in unlisted managed investment schemes	792	–	–
	1,840	41	(17)
Liabilities			
Investment contract liabilities	49,875	9	(9)
	49,875	9	(9)

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

23. Capital management

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, approved by the board.

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

The AMP group makes adjustments to the statutory shareholder equity. Under Australian Accounting Standards, some assets held on behalf of the policyholders (and related tax balances) are recognised in the financial report at different values to the values used in the calculation of the liability to policyholders in respect of the same assets. Therefore, movements in these policyholder assets result in accounting mismatches which impact profit attributable to shareholders. Mismatch items include:

- treasury shares (AMP Limited shares held by the statutory funds on behalf of policyholders)
- AMP Life Limited statutory funds' investments in controlled entities
- other – owner-occupied properties and AMP Life Limited statutory funds' superannuation products invested in AMP Bank Limited assets.

Adjustments are also made relating to cash flow hedge reserves.

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

	2012 \$m	2011 \$m
AMP statutory equity attributable to shareholders of AMP Limited	7,434	6,829
Accounting mismatch items and cash flow hedge reserves	310	185
AMP shareholder equity	7,744	7,014
Subordinated debt ¹	879	879
Senior debt ¹	700	657
Total AMP capital resources	9,323	8,550

1 Amounts shown for subordinated debt and senior debt are the amounts to be repaid on maturity. Amounts recognised in the Statement of financial position in respect of these debts are measured at amortised cost using the effective interest rate method.

The AMP group assesses the adequacy of its capital requirements against regulatory capital requirements. The AMP group's capital management plan 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, life insurance companies and approved superannuation trustees all regulated by APRA. A number of companies also hold Australian Financial Services Licences.

23. Capital management continued

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 and The National Mutual Life Association of Australasia Limited (NMLA) – solvency, capital adequacy and management capital requirements as specified under the *Life Act* and APRA Life Insurance Prudential Standards. From 1 January 2013, these will be replaced with revised APRA Prudential Standards (see note 34)
- AMP Bank Limited – capital requirements as specified under APRA Banking Prudential Standards. From 1 January 2013, these will be replaced with revised APRA Prudential Standards
- AMP Capital Investors Limited – capital and liquidity requirements under its Australian Financial Services Licence. Revised AFSL requirements applied from 1 November 2012
- National Mutual Funds Management Limited – capital and liquidity requirements as specified under its Australian Financial Services Licence, and an amount of capital for the risks associated with the North guarantee. Revised AFSL requirements applied from 1 November 2012.

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

AMP holds a level of capital above its MRR. At reporting date the regulatory capital resources above MRR were \$2,420m (2011: \$1,543m). The regulatory capital resources above MRR will vary throughout the year due to investment market movements, dividend payments and the retention of profits.

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

AMP's regulated businesses each target a level of capital equal to MRR plus a target surplus. Prior to 1 January 2013, the AMP Life and NMLA target surplus was set by reference to a probability of breaching regulatory capital requirements. This is a two tiered test where the target surplus was set as the greater of the amount required for a:

- 1 per cent probability of breaching solvency over one year
- 10 per cent probability of breaching capital adequacy over one year.

Target surplus policies for AMP Life Limited and NMLA have been revised following the introduction of revised life insurance APRA Prudential Standards, which take effect 1 January 2013 (see note 34).

AMP Bank's target surplus reflects an additional 0.75 per cent of risk-weighted assets above the APRA minimum requirements.

Other components of AMP's target surplus include amounts relating to the North guarantee, group office investment risks, defined benefit fund market risks, and operational risks.

APRA is developing Prudential Standards relating to Capital Adequacy for conglomerate groups. The revised prudential standards are expected to commence 1 January 2014, with no changes to existing supervision until that date. Draft Prudential Standards relating to Capital Adequacy are expected to be available in 1H 2013.

APRA is yet to confirm how the recently finalised APRA Prudential Standards relating to the Insurers or ADIs will affect the Conglomerate proposals. Nonetheless, APRA has confirmed transition arrangements with AMP, relating to the subordinated debt held at a group level continuing to be 100 per cent recognised as eligible capital under the revised standards until the earlier of each relevant instrument's first call date or March 2016.

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

AMP continues to maintain a prudent approach to capital.

24. Notes to Statement of cash flows

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
(a) Reconciliation of the net profit after income tax to cash flows from operating activities				
Net profit after income tax	687	676	301	352
Depreciation of operating assets	44	37	–	–
Amortisation and impairment of intangibles	274	192	–	–
Investment gains and losses and movements in external unitholders liabilities	(6,267)	3,211	–	–
Dividend and distribution income reinvested	(1,702)	(2,995)	–	–
Share-based payments	26	27	5	–
Decrease (increase) in receivables, intangibles and other assets	137	18	(56)	95
(Decrease) increase in net policy liabilities	6,101	(1,973)	–	–
(Decrease) increase in income tax balances	603	(567)	115	(235)
(Decrease) increase in other payables and provisions	1,030	2,185	(63)	101
Cash flows from (used in) operating activities	933	811	302	313
(b) Reconciliation of cash				
Comprises:				
Cash on hand	3,631	3,797	1	1
Cash on deposit	576	855	–	–
Bank overdrafts (included in Borrowings)	(7)	(4)	–	–
Short-term bills and notes (included in Debt securities)	4,971	4,788	–	–
Balance at the end of the period	9,171	9,436	1	1
(c) Financing arrangements				
<i>(i) Overdraft facilities</i>				
Bank overdraft facility available	377	379	–	–
<i>(ii) Loan facilities</i>				
In addition to facilities arranged through bond and note issues (refer notes 16 and 17), financing facilities are provided through bank loans under normal commercial terms and conditions.				
Available	2,490	2,939	–	–
Used	(1,256)	(941)	–	–
Unused	1,234	1,998	–	–
<i>(iii) Bond and note funding programs</i>				
Available	13,385	14,272	–	–
Used	(6,651)	(7,358)	–	–
Unused	6,734	6,914	–	–

(d) Acquisitions and disposal of controlled entities

Operating entities

During the year ended 31 December 2012 AMP acquired the following entities:

- on 3 July 2012 AMP acquired 100 per cent of the self-managed superannuation fund (SMSF) administration and investment administration business of Cavendish Pty Limited and its controlled entities for \$20m, consisting of \$18m cash and a \$2m deferred payment
- in June 2012 AMP increased its ownership interest in Exford Pty Limited and in AMP Capital Brookfield Limited (previously associates) from 50 per cent to 100 per cent, for cash consideration of \$4m in each case. The principal activities of these entities are financial planning and asset management, respectively.

The acquired entities are consolidated from their respective acquisition dates.

On 30 March 2011, AMP Limited acquired 100 per cent of AMP AAPH Limited (formerly AXA Asia Pacific Holdings Limited).

The principal activity of AMP AAPH is wealth management. The AMP group profit for the year ended 31 December 2011 included the results of AMP AAPH Limited for the nine-month period from acquisition date, whereas the AMP group profit for the year ended 31 December 2012 includes the results of AMP AAPH Limited for the full year.

On 31 December 2011, AMP group disposed of its 100 per cent interest in the shares of AMP General Insurance Distribution Limited, and AMP group ceased to consolidate the entity from that date. AMP group did not continue to hold any ownership interest following the disposal. A gain on sale of \$38m was recognised and is included in investment gains and (losses) in the Income statement. Cash consideration of \$39m was received in January 2012.

There were no other significant acquisitions or disposals of operating entities in 2012 or 2011.

24. Notes to statement of cash flows continued

The impact of acquisitions of operating entities is as follows:

	Impact in 2012 \$m	Impact in 2011 \$m
Assets		
Cash and cash equivalents	(14)	469
Receivables	3	984
Current tax assets	–	8
Inventories and other assets	–	12
Investments in financial assets measured at fair value through profit or loss	–	12,962
Investments in financial assets measured at amortised cost	–	10
Investments in associates accounted for using the equity method	(14)	22
Investment property	–	11
Property, plant and equipment	–	22
Deferred tax asset	–	524
Intangible assets	36	3,520
Total assets	11	18,544
Liabilities		
Payables	10	518
Current tax liabilities	–	11
Provisions	1	308
Derivative financial liabilities	–	34
Deferred tax liabilities	–	398
External unitholders liabilities	–	310
Life insurance contract liabilities	–	6,840
Investment contract liabilities	–	6,131
Defined benefit plan liability	–	149
Total liabilities	11	14,699

Controlled entities of AMP life insurance entities' statutory funds

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

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

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

During 2012 AMP lost control over the AMP Capital Pacific Fair and Macquarie Shopping Centre Fund as a result of a reduction in its ownership interest. The impact of this transaction is as follows:

	Impact in 2012 \$m
Assets	
Cash	(7)
Investment property	(793)
Investments in financial assets measured at fair value through profit or loss	438
Other assets	(12)
Total assets	(374)
Liabilities	
Payables	(9)
Borrowings	(208)
Other financial liabilities	(19)
External unitholder liabilities	(138)
Total liabilities	(374)

25. Earnings per share

(a) Classification of equity securities

Ordinary shares have been included in the calculation of basic earnings per share.

In accordance with AASB 133 *Earnings per Share*, options over unissued ordinary shares and performance rights have been classified as potential ordinary shares and have been considered in the calculation of diluted earnings per share. As all options were out of the money for 2012 and 2011, they have been determined not to be dilutive for those periods. Performance rights have been determined to be dilutive in 2012 and 2011. Although performance rights have been determined to be dilutive in accordance with AASB 133 *Earnings per Share*, if these instruments vest and are exercised, it is AMP's policy to buy AMP shares 'on market' so there will be no dilutive effect on the value of AMP shares.

Since the end of the year and up to the date of the report, no performance rights have been issued, no performance rights have been exercised, and no performance rights have lapsed. During the same period no share rights have been issued, no share rights have been exercised, and no share rights have lapsed. There have been no movements in the number of shares on issue.

Of the AMP Limited ordinary shares on issue 55,473,106 (2011: 40,653,518) are held by controlled entities of AMP Limited. AMP's life insurance entities hold 53,720,838 (2011: 38,901,250) shares on behalf of policyholders. The Australian Securities and Investments Commission (ASIC) has granted relief from restrictions in the *Corporations Act 2001* to allow AMP's life insurance entities to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. The cost of the investment in these 'treasury shares' is reflected as a deduction from total contributed equity.

	Consolidated	
	2012 million shares	2011 million shares
(b) Weighted average number of ordinary shares used		
Weighted average number of ordinary shares used in calculation of basic earnings per share	2,845	2,613
Add: potential ordinary shares considered dilutive	22	16
Weighted average number of ordinary shares used in calculation of diluted earnings per share	2,867	2,629

	\$m	\$m
(c) Level of earnings used		
Basic	704	688
Diluted	704	688

	cents	cents
(d) Earnings per share		
Basic	24.7	26.3
Diluted	24.6	26.2

26. Superannuation funds

AMP contributes to 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 AMP group companies and the 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 Income statement, Statement of comprehensive income, 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 AAS 25 *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 *Employee Benefits*, largely due to the use of different discount rates in valuing benefits. Refer to note 26 (g) for details of the funding of the AMP defined benefit funds.

26. Superannuation funds continued

	Consolidated	
	2012 \$m	2011 \$m
(a) Defined benefit plan income (expense)		
Current service cost	(7)	(11)
Interest cost	(30)	(35)
Expected return on plan assets ^{1,2}	45	39
Foreign currency gains and losses	(3)	–
Total defined benefit plan income (expense)	5	(7)
(b) Movements in defined benefit obligation		
Balance at the beginning of the period	(988)	(341)
Balance on acquisition of controlled entity	–	(524)
Current service cost	(7)	(11)
Interest cost	(30)	(35)
Contributions by plan participants	(1)	(1)
Actuarial gains and losses ³	14	(113)
Foreign currency exchange rate changes	(7)	(5)
Benefits paid	51	42
Other expenses	4	–
Balance at the end of the period	(964)	(988)
(c) Movement in fair value of plan assets		
Balance at the beginning of the period	618	274
Balance on acquisition of controlled entity	–	375
Expected return on plan assets	45	39
Actuarial gains and losses	39	(64)
Foreign currency exchange rate changes	4	4
Employer contributions	26	31
Contributions by plan participants	1	1
Benefits paid	(51)	(42)
Other expenses	(4)	–
Balance at the end of the period	678	618
(d) Defined benefit (liability) asset		
Present value of wholly funded defined benefit obligations	(964)	(988)
Less: Fair value of plan assets	678	618
Defined benefit (liability) asset recognised on the Statement of financial position⁴	(286)	(370)
Movement in defined benefit (liability) asset		
(Deficit) surplus at the beginning of the period	(370)	(67)
Plus: Balance on acquisition of controlled entity	–	(149)
Plus: Total income (expenses) recognised in income	5	(7)
Plus: Employer contributions	26	31
Plus: Foreign currency exchange rate changes	–	(1)
Plus: Actuarial gains (losses) recognised in Other comprehensive income ⁵	53	(177)
Defined benefit (liability) asset recognised at the end of the period	(286)	(370)

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 \$84m (2011: \$25m loss).

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

4 The defined benefit liability is measured in accordance with the requirements of AASB 119 *Employee Benefits* and does not represent a current obligation to provide additional funding to the plans. For the purposes of recommending contributions to the defined benefit funds, fund actuaries consider the positions of the funds as measured under AAS 25 *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 26(g) for details of the funding of the AMP defined benefit funds.

5 The cumulative amount of the net actuarial gains and losses recognised in the Statement of comprehensive income is a \$109m loss (2011: \$162m loss).

26. Superannuation funds continued

	Consolidated			
	2012 \$m	2011 \$m	2010 \$m	2009 \$m
(e) Historical analysis of defined benefit (deficit) surplus				
AMP Australian defined benefit (liability) asset				
Present value of wholly funded defined benefit obligations	(333)	(372)	(317)	(312)
Less: Fair value of plan assets	244	239	260	267
Net defined benefit (liability) asset recognised in the Statement of financial position	(89)	(133)	(57)	(45)
Actuarial gains and (losses) arising on plan liabilities	24	(54)	(4)	47
Actuarial gains and (losses) arising on plan assets	14	(24)	(10)	17
AMP AAPH Australian defined benefit (liability) asset				
Present value of wholly funded defined benefit obligations	(451)	(458)	–	–
Less: Fair value of plan assets	348	305	–	–
Net defined benefit (liability) asset recognised in the Statement of financial position	(103)	(153)	–	–
Actuarial gains and (losses) arising on plan liabilities	5	(36)	–	–
Actuarial gains and (losses) arising on plan assets	22	(34)	–	–
AMP New Zealand defined benefit (liability) asset				
Present value of wholly funded defined benefit obligations	(32)	(30)	(24)	(33)
Less: Fair value of plan assets	19	15	14	22
Net defined benefit (liability) asset recognised in the Statement of financial position	(13)	(15)	(10)	(11)
Actuarial gains and (losses) arising on plan liabilities	(1)	(4)	–	(3)
Actuarial gains and (losses) arising on plan assets	1	(2)	(1)	–
AMP AAPH New Zealand defined benefit (liability) asset				
Present value of wholly funded defined benefit obligations	(148)	(128)	–	–
Less: Fair value of plan assets	67	59	–	–
Net defined benefit (liability) asset recognised in the Statement of financial position	(81)	(69)	–	–
Actuarial gains and (losses) arising on plan liabilities	(14)	(19)	–	–
Actuarial gains and (losses) arising on plan assets	2	(4)	–	–

(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:

	AMP				AMP AAPH			
	Australia		New Zealand		Australia		New Zealand	
	2012	2011	2012	2011	2012	2011	2012	2011
Discount rate	2.7%–5.5%	2.9%–6.2%	1.8%–2.9%	1.7%–2.9%	2.7%–5.5%	2.9%–6.2%	1.8%–2.9%	1.7%–2.9%
Expected return on assets (before tax)	n/a	8.0%	8.3%	8.3%	n/a	8.0%	8.3%	8.3%
Expected rate of pension increases	2.5%	2.5%	1.9%	1.9%	2.5%	2.5%	2.5%	2.5%
Expected rate of salary increases	4.0%	4.0%	4.0%	4.0%	4.0%	3.5%	4.0%	4.0%
Proportion of benefits expected to be taken as pensions	60.0%	60.0%	n/a	n/a	90.0% for pre-1995 members 60.0% for post-1994 members	90.0% for pre-1995 members 60.0% for post-1994 members	75.0%	75.0%

26. Superannuation funds continued

In 2012, the discount rate for Australian defined benefit funds was determined based on a blend of Commonwealth and state government bonds. In 2011 they were determined based on current market yields for Australian Commonwealth government bonds.

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

Funding methods and current recommendations – AMP Australia

The AMP 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 26 (f), except for the discount rate for the purposes of determining accrued benefits.

As at the most recent actuarial review, 31 March 2012, the fund actuary did not identify any deficit for funding purposes and no additional contributions are required. As at the date of this report, the fund actuary has not indicated any change to this position.

Funding methods and current recommendations – AMP AAPH Australia

The AMP AAPH 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 26 (f), except for the discount rate for the purposes of determining accrued benefits.

As at the most recent actuarial review, 30 September 2012, the fund actuary did not identify any deficit for funding purposes and no additional contributions are required. As at the date of this report, the fund actuary has not indicated any change to this position.

Funding methods and current recommendations – AMP New Zealand

The AMP 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.

AMP has adopted the fund actuary's recommendation for AMP to make additional contributions of \$2m per annum until the financial position of the plan is sufficiently improved.

Funding methods and current recommendations – AMP AAPH New Zealand

The AMP AAPH 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.

AMP has adopted the fund actuaries' recommendation that AMP makes additional contributions of \$3m per annum.

(h) Allocation of assets

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

	AMP									
	Australia ¹		New Zealand ¹		Australia ¹		New Zealand ¹			
	2012	2011	2012	2011	2012	2011	2012	2011		
Equity	37%	59%	55%	59%	37%	57%	44%	38%		
Property	5%	18%	8%	11%	5%	5%	6%	7%		
Fixed interest	39%	14%	26%	23%	39%	25%	33%	49%		
Cash	12%	3%	11%	7%	12%	1%	17%	6%		
Other	7%	6%	0%	0%	7%	12%	0%	0%		

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.

27. Share-based payments

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

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

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

	Consolidated	
	2012 \$'000	2011 \$'000
Plans currently offered		
Performance rights	13,137	14,500
Share rights	9,524	1,331
Restricted shares	4,123	9,271
Employee share acquisition plan – matching shares	68	115
Total share-based payments expense	26,852	25,217

(b) Performance rights

Plan description

The CEO and his direct reports, as well as selected senior executives, are required to take their long-term incentive (LTI) awards in the form of performance rights. This is to ensure that those executives, who are most directly able to influence company performance, are appropriately aligned with the interests of shareholders. All other LTI participants are provided with a degree of choice over whether their LTI grant is composed of performance rights, share rights 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 at no cost to the participant, provided a specific performance hurdle is met. Prior to conversion into shares (vesting), performance rights holders do not receive dividends or have other shareholder benefits (including any voting rights). From September 2011, performance rights may be settled through a cash payment in lieu of shares, at the discretion of the board.

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

The performance hurdle

The number of performance rights that vest is determined by a vesting schedule based on the performance of AMP 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 per cent 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'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 People and Remuneration Committee (PRC) with AMP's TSR ranking against the comparator group. The 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 (ie converted to shares). Upon exercise, participants become entitled to shareholder benefits, including dividends and voting rights. For performance rights issued from 2008–2010, if performance rights are not automatically exercised on the participant's behalf, the participant has two years from the end of the performance period to exercise vested awards. When performance rights are exercised, the AMP 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 shares.

Treatment of performance rights on ceasing employment and change of control

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

27. Share-based payments continued

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

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 until the end of the performance period.

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

The following table shows the factors which were considered in determining the independent fair value of the performance rights granted during 2012 and the comparative period (2011):

Grant date	Share price	Contractual life	Dividend yield	Volatility	Risk-free rate	Performance hurdle discount	Fair value
07/06/2012	\$3.85	2.7 years	6.3%	26%	2.3%	67%	\$1.28
09/09/2011	\$4.15	2.9 years	5.9%	34%	3.7%	54%	\$1.92
09/06/2011	\$4.88	2.8 years	5.5%	36%	4.8%	51%	\$2.39
09/06/2011	\$4.88	2.1 years	5.5%	36%	4.8%	55%	\$2.19

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

Grant date	Exercise date	Exercise price	Balance at 1 Jan 2012 ¹	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2012 ²
12/03/2010	01/08/2012	Nil	4,879,286	—	—	4,879,286	—
08/09/2010	01/08/2013	Nil	4,114,332	—	—	4,984	4,109,348
09/06/2011	01/08/2013	Nil	88,040	—	—	—	88,040
09/06/2011	01/05/2014	Nil	729,167	—	—	—	729,167
09/09/2011	n/a ³	Nil	5,759,283	—	—	52,403	5,706,880
07/06/2012	n/a ³	Nil	—	—	7,133,636	—	7,133,636
Total			15,570,108	—	7,133,636	4,936,673	17,767,071

1 The weighted average remaining contractual life of performance rights outstanding at the end of the period is 1.6 years.

2 The share rights granted on 9 September 2011 and 7 June 2012 have no exercise date as they are automatically exercised upon vesting.

3 The performance rights granted on 9 September 2011 and 7 June 2012 have no exercise date as they are automatically exercised upon vesting.

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

(c) Share rights

Plan description

As described above, LTI participants below the CEO and his direct reports may be eligible to take some of their award in share rights.

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

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

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

27. Share-based payments continued

Exercising share rights

If the awards vest, they are automatically exercised on behalf of the participant (ie converted to shares). Upon exercise, participants become entitled to shareholder benefits, including dividends and voting rights. When share rights are exercised, the AMP 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 shares.

Treatment of share rights on ceasing employment and change of control

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

Plan valuation

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

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

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

STI deferral plan

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

STI match plan

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

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

The following table shows the factors which were considered in determining the independent fair value of the share rights granted during 2012 and the comparative period (2011). Included in this table are the share bonus rights granted to overseas executives to mimic restricted share awards (disclosed under the heading of 'restricted shares' in prior year annual reports). Share bonus rights without performance conditions have terms that are identical to share rights, except that they are settled in cash rather than equity instruments.

Grant date	Share price	Contractual life	Dividend yield	Dividend discount	Fair value
07/06/2012	\$3.85	2.7 years	6.3%	17%	\$3.19
22/05/2012	\$3.87	1.7 years	6.3%	11%	\$3.46
27/04/2012	\$4.25	1.8 years	6.3%	11%	\$3.78
09/09/2011	\$4.15	2.9 years	5.9%	16%	\$3.50
09/09/2011	\$4.15	2.0 years	5.9%	11%	\$3.69

27. Share-based payments continued

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

Grant date	Exercise period	Exercise price	Balance at 1 Jan 2012	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2012 ¹
12/03/2010	23/02/2012–22/02/2014	Nil	41,867	41,867	–	–	–
12/03/2010	01/08/2012–31/07/2014	Nil	212,155	212,155	–	–	–
28/05/2010	22/03/2012–21/03/2014	Nil	35,211	35,211	–	–	–
08/09/2010	01/08/2013–31/07/2015	Nil	115,575	–	–	–	115,575
09/09/2011	n/a ²	Nil	35,630	–	–	–	35,630
09/09/2011	n/a ²	Nil	2,780,917	–	–	40,452	2,740,465
27/04/2012	n/a ²	Nil	–	–	1,902,884	–	1,902,884
27/04/2012	n/a ²	Nil	–	–	999,335	–	999,335
22/05/2012	n/a ²	Nil	–	–	247,513	–	247,513
07/06/2012	n/a ²	Nil	–	–	2,220,558	–	2,220,558
Total			3,221,355	289,233	5,370,290	40,452	8,261,960

- The weighted average remaining contractual life of share rights (and share bonus rights without performance conditions) outstanding at the end of the period is 1.7 years.
- The share rights granted on 9 September 2011, 27 April 2012, 22 May 2012 and 7 June 2012 have no exercise period as they are automatically exercised upon vesting.

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

(d) Restricted shares

Plan description

From time to time, AMP awards restricted shares to retain critical employees. Additionally, prior to 2011, Australian LTI participants were eligible to take some of their award in restricted shares (rather than share rights).

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

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

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

Plan valuation

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

The following table shows the number of restricted shares that were granted during 2012 and the comparative period (2011), and the fair value per instrument of restricted shares as at the grant date.

Grant date	Number granted	Weighted average fair value
20/08/2012	65,211	\$4.42
09/09/2011	221,725	\$4.15
09/06/2011	39,416	\$4.88

27. Share-based payments continued

(e) Employee share acquisition plan

Plan description

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

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

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

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

Plan valuation

All awards made during 2012, and the comparative year (2011), were offers to salary sacrifice to acquire shares, with matching shares awarded on a one-for-ten basis after a three-year vesting period. Each matching share has been valued by external consultants as the face value of an AMP ordinary share at the date the salary sacrifice shares were acquired, less the present value of the expected dividends (to which the participant is not entitled until the end of the vesting period). The number of matching shares expected to be granted is estimated based on the average number of shares held in the ESAP by each employee at the beginning of each year. In determining the share-based payments expense for the period, the number of matching shares expected to be granted has been adjusted to reflect the number of employees expected to remain with AMP until the end of the three-year vesting period.

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

Grant date	Estimated number of matching shares to be granted	Weighted average fair value
2012 – various	535	\$3.51
2011 – various	652	\$3.98

28. Group controlled entity holdings

Name of entity	Country of registration	Share type	Footnote	% Holdings	
				2012	2011
140 St Georges Terrace Pty Limited	Australia	Ord	3	85	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
AAPH Australia Staff Superannuation Pty Ltd (formerly AXA Australia Staff Superannuation Pty Ltd)	Australia	Ord		100	100
AAPH Executive Plan (Australia) Pty Ltd (formerly AXA APH Executive Plan (Australia) Pty Ltd)	Australia	Ord		100	100
AAPH GESP Exempt (Australia) Pty Ltd (formerly AXA APH GESP Exempt (Australia) Pty Ltd)	Australia	Ord		100	100
AAPH Hong Kong Finance Limited (formerly AXA Hong Kong Finance Limited)	Hong Kong	Ord		100	100
AAPH New Zealand Finance Pty Ltd (formerly AXA New Zealand Finance Pty Ltd)	Australia	Ord		100	100
AAPH New Zealand HJV Limited (formerly AXA New Zealand HJV Limited)	New Zealand	Ord		100	100
Abbey Capital Real Estate Pty Limited	Australia	Ord		100	100
Accountants Resourcing (Australia) Pty Ltd	Australia	Ord		100	100
ACIT Finance Pty Limited	Australia	Ord		100	100
ACN 100 509 993 Pty Ltd	Australia	Ord		100	100
ACN 155 075 040 Pty Limited	Australia	Ord, Class A Pref.	1	100	–
ACPP Industrial Pty Ltd	Australia	Ord	3	85	100
ACPP Office Pty Ltd	Australia	Ord	3	85	100
ACPP Retail Pty Ltd	Australia	Ord	3	85	100
AdviceFirst Limited (formerly Charter Financial Solutions Ltd)	New Zealand	Ord		65	67
Adviser Resourcing 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	New Zealand	Ord, Pref		100	100
AMP (UK) Finance Services Plc	UK	Ord		100	100
AMP AAPH Finance Limited (formerly AXA Asia Pacific Finance)	Australia	Ord		100	100
AMP AAPH Limited (formerly AXA Asia Pacific Holdings Limited)	Australia	Ord		100	100
AMP ASAL Pty Ltd	Australia	Ord		100	100
AMP Australian Financial Services Holdings Limited	Australia	Ord	2	–	100
AMP Bank Limited	Australia	Ord		100	100
AMP Capital AB Holdings Pty Limited	Australia	Ord	3	85	100
AMP Capital Advisors India Private Limited	India	Ord	3	85	100
AMP Capital Asia Limited (formerly AMP Capital Brookfield (HK) Limited)	HK	Ord	3	85	49
AMP Capital Bayfair Pty Limited	Australia	Ord	3	85	100
AMP Capital Core Infrastructure Pty Limited	Australia	Ord	3	85	100
AMP Capital Finance Limited	Australia	Ord	3	85	100
AMP Capital Funds Management Limited	Australia	Ord	1,3	85	–
AMP Capital Holdings Limited	Australia	Ord	3	85	100
AMP Capital Investment Management (UK) Limited (formerly AMP Capital Brookfield (UK) Limited)	UK	Ord A & B	3	85	49
AMP Capital Investment Management Pty Limited (formerly AMP Capital Brookfield Pty Limited)	Australia	Ord A & B	3	85	50
AMP Capital Investments No 11 Limited	New Zealand	Ord A & B		100	100
AMP Capital Investments No. 14 Limited	New Zealand	Ord A & B, Pref		100	100
AMP Capital Investments No. 2 Limited	New Zealand	Ord A & B, Pref		100	100
AMP Capital Investments No. 8 Limited	New Zealand	Ord A & B, Pref		100	100
AMP Capital Investors (Hong Kong) Limited	Hong Kong	Ord	3	85	100
AMP Capital Investors (Jersey No. 2) Limited	Jersey	Ord	3	85	100
AMP Capital Investors (Luxembourg No. 3) S.à r.l.	Luxembourg	Ord	3	85	100
AMP Capital Investors (Luxembourg No. 4) S.à r.l.	Luxembourg	Ord	3	85	100
AMP Capital Investors (Luxembourg No. 5) S.à r.l.	Luxembourg	Ord	3	85	100
AMP Capital Investors (Luxembourg No. 6) S.à r.l.	Luxembourg	Ord	3	85	100
AMP Capital Investors (Luxembourg) S.à r.l. [formerly AMP Capital Redding Investors Luxembourg Limited]	Luxembourg	Ord	3	85	100
AMP Capital Investors (New Zealand) Limited	New Zealand	Ord	3	85	100

28. Group controlled entity holdings continued

Name of entity	Country of registration	Share type	Footnote	% Holdings	
				2012	2011
AMP Capital Investors (Property Funds Management Jersey) Limited	Jersey	Ord	3	85	100
AMP Capital Investors (Singapore) Private Property Trust Limited	Singapore	Ord	3	85	100
AMP Capital Investors (Singapore) Pte Ltd	Singapore	Ord	3	85	100
AMP Capital Investors (UK) Limited	UK	Ord	3	85	100
AMP Capital Investors (US) Limited	USA	Ord	3	85	100
AMP Capital Investors Advisory (Beijing) Limited	R.O.C.	Ord	3	85	100
AMP Capital Investors International Holdings Limited	Australia	Ord	3	85	100
AMP Capital Investors Japan KK	Japan	Ord	3	85	100
AMP Capital Investors KK	Japan	Ord	3	85	100
AMP Capital Investors Limited	Australia	Ord	3	85	100
AMP Capital Investors Property Japan KK	Japan	Ord	3	85	100
AMP Capital Investors Real Estate Pty Limited	Australia	Ord	3	85	100
AMP Capital Lifestyle Limited	Australia	Ord	2	–	100
AMP Capital Office & Industrial (Singapore) Pte Limited	Singapore	Ord	3	85	100
AMP Capital Office and Industrial Pty Limited	Australia	Ord	3	85	100
AMP Capital Palms Pty Limited	Australia	Ord	3	85	100
AMP Capital Property Nominees Ltd	Australia	Ord	3	85	100
AMP Capital SA Schools No. 1 Pty Limited	Australia	Ord	1,3	85	–
AMP Capital SA Schools No. 2 Pty Limited	Australia	Ord	1,3	85	–
AMP Capital Shopping Centres Pty Limited	Australia	Ord	3	85	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	3	85	100
AMP Custodian Services (NZ) Limited	New Zealand	Ord	3	85	100
AMP Davidson Road Pty Limited	Australia	Ord	3	85	100
AMP Direct Pty Ltd (formerly AMP Private Wealth Management Pty Limited)	Australia	Ord		100	100
AMP Finance Limited	Australia	Ord		100	100
AMP Finance Services Limited	Australia	Ord		100	100
AMP Financial Investment Group Holdings 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	3	85	100
AMP Global Property Investments Pty Ltd	Australia	Ord		100	100
AMP Group Finance Services Limited	Australia	Ord		100	100
AMP Group Holdings 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	New Zealand	Ord	3	85	100
AMP Investment Services No. 2 Pty Limited	Australia	Ord	3	85	100
AMP Investment Services Pty Limited	Australia	Ord	3	85	100
AMP Lending Services Limited	Australia	Ord		100	100
AMP Life (NZ) Investments Holdings Limited	New Zealand	Ord		100	100
AMP Life (NZ) Investments Limited	New Zealand	Ord		100	100
AMP Life Limited	Australia	Ord		100	100
AMP Macquarie Holding Pty Limited	Australia	Ord	3	85	100
AMP Macquarie Pty Limited	Australia	Ord	3	85	100
AMP New Zealand Holdings Limited (formerly AXA New Zealand Limited)	New Zealand	Ord		100	100
AMP Pacific Fair Pty Limited	Australia	Ord	3	85	100
AMP Personal Investment Services Limited	Australia	Ord		100	100
AMP Planner Register Company Pty Limited	Australia	Ord		100	100
AMP Private Capital New Zealand Limited	New Zealand	Ord	3	85	100
AMP Private Capital No. 2 Pty Limited	Australia	Ord	3	85	100
AMP Private Capital Pty Limited	Australia	Ord	3	85	100
AMP Private Investments Pty Limited	Australia	Ord	3	85	100
AMP Property Investments (Qld) Pty. Ltd.	Australia	Ord		100	100
AMP Real Estate Advisory Holdings Pty Limited	Australia	Ord	1	100	–
AMP Remuneration Reward Plans Nominees Pty. Limited	Australia	Ord		100	100
AMP Riverside Plaza Pty Limited	Australia	Ord	3	85	100
AMP Royal Randwick Pty Limited	Australia	Ord	3	85	100

28. Group controlled entity holdings continued

Name of entity	Country of registration	Share type	Footnote	% Holdings	
				2012	2011
AMP Services (NZ) Limited	New Zealand	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		100	100
AMP SMSF Investments Pty Limited	Australia	Ord		100	100
AMP Superannuation (NZ) Limited	New Zealand	Ord		100	100
AMP Superannuation Limited	Australia	Ord		100	100
AMP Warringah Mall Pty Ltd	Australia	Ord	3	85	100
AMP Wealth Management New Zealand Limited (formerly AXA Wealth Management Limited)	New Zealand	Ord		100	100
AMP/ERGO Mortgage and Savings Limited	New Zealand	Ord		100	100
Arrive Wealth Management Limited	Australia	Ord		100	100
Associated Planners Financial Services Pty Ltd	Australia	Ord		96	95
Associated Planners Strategic Finance Pty Ltd	Australia	Ord		96	95
Assure Nominees Limited	New Zealand	Ord	2	–	100
Auburn Mega Mall Pty Limited	Australia	Ord	3	85	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	3	85	100
AXA APH GESP Deferred (Australia) Pty Ltd	Australia	Ord		100	100
AXA Funds Management Pty Ltd	Australia	Ord		100	100
BMRI Financial Services Pty Ltd	Australia	Ord		100	100
Carter Bax Pty Ltd	Australia	Ord		100	100
Cavendish Administration Pty Ltd	Australia	Ord	1	100	–
Cavendish Pty Ltd	Australia	Ord	1	100	–
Cavendish Superannuation Holdings Pty Ltd	Australia	Ord	1	100	–
Cavendish Superannuation Pty Ltd	Australia	Ord	1	100	–
CBD Financial Planning Pty Limited	Australia	Ord		100	100
Charter Financial Planning Limited	Australia	Ord		100	100
Client Reserve Limited	New Zealand	Ord	2	–	100
Clientcare Financial Planning Pty Ltd	Australia	Ord		100	100
Collins Place No. 2 Pty Ltd	Australia	Ord		100	100
Collins Place Pty Limited	Australia	Ord		100	100
Didus Pty Limited	Australia	Ord		100	100
Donaghys Australia Pty Limited	New Zealand	Ord, Redem Pref	2	–	58
Donaghys Industries Limited	New Zealand	Ord	2	–	58
Donaghys International Limited	New Zealand	Ord, Pref	2	–	58
Donaghys Limited	New Zealand	Ord A & B	2	–	58
Donaghys Pty Limited	New Zealand	Ord A, B & E	2	–	58
Enemelay Investments Pty Ltd	Australia	Ord	2	–	100
Exford Pty Ltd	Australia	Ord		100	50
Financial Composure Pty Ltd	Australia	Ord		96	95
Financially Yours Holdings Pty Ltd	Australia	Ord		80	80
Financially Yours Pty Ltd	Australia	Ord		80	80
First Quest Capital Pty Ltd	Australia	Ord		96	95
Focus Property Services Pty Limited	Australia	Ord		92	92
Foundation Wealth Advisers Pty Ltd	Australia	Ord		57	57
Garrisons (Rosny) Pty Ltd	Australia	Ord		100	100
Genesys Group Holdings Pty Ltd	Australia	Ord		100	100
Genesys Group Pty Ltd	Australia	Ord		96	95
Genesys Holdings Limited	Australia	Ord		96	95
Genesys Kew Pty Ltd	Australia	Ord		96	95
Genesys Wealth Advisers (WA) Pty Ltd	Australia	Ord		100	100
Genesys Wealth Advisers Ltd	Australia	Ord		96	95
Glendenning Pty Limited	Australia	Ord		100	100
GWM Spicers Limited (formerly Gould Wealth Management Limited)	New Zealand	Ord		100	100
Hillross Alliances Limited	Australia	Ord		100	100
Hillross Financial Services Limited	Australia	Ord		100	100
Hillross Innisfail Pty Limited	Australia	Ord		100	100
Hillross Wealth Management Centre Melbourne Pty Limited	Australia	Ord		100	100
Hindmarsh Square Financial Services Pty Ltd	Australia	Ord		100	100
Hindmarsh Square Wealth Advisers Pty Ltd	Australia	Ord		73	72
Honeysuckle 231 Pty Limited	Australia	Ord		60	60
INSSA Pty Limited	Australia	Ord		100	100
ipac Asset Management Limited	Australia	Ord		100	100

28. Group controlled entity holdings continued

Name of entity	Country of registration	Share type	Footnote	% Holdings	
				2012	2011
ipac Financial Care Pty Ltd	Australia	Ord		100	67
ipac Group Services Pty Limited	Australia	Ord		100	100
Ipac Portfolio Management Limited	Australia	Converting Class A	3	85	100
ipac Securities Limited	Australia	Ord		100	100
ipac Taxation Services Pty Ltd	Australia	Ord		75	75
Jeminex Pty Limited	Australia	Ord		51	51
Jigsaw Support Services Limited (formerly AXA Financial Planning Limited)	Australia	Ord		100	100
John Coombes & Company Pty Ltd	Australia	Ord		55	55
Kent Street Pty Limited	Australia	Ord		100	100
King Financial Services Pty Ltd	Australia	Ord		88	35
Kiwi Kat Limited	New Zealand	Ord		70	70
KiwiPlus Limited	New Zealand	Ord	2	–	100
Knox City Shopping Centre Investments (No. 2) Pty Limited	Australia	Ord		100	100
Kramar Holdings Pty Limited	Australia	Ord	2	–	78
Lidomain Pty Ltd	Australia	Ord	2	–	100
LifeFX Pty Ltd	Australia	Ord		100	100
Lindwall Group Pty Ltd	Australia	Ord		100	100
Marrickville Metro Shopping Centre Pty Limited	Australia	Ord	3	85	100
Monitor Money Corporation Pty Ltd	Australia	Ord		100	100
Mortgage Backed Bonds Limited	New Zealand	Ord		100	100
Mowla Pty. Ltd.	Australia	Ord		100	100
Multiport Malaysia SDN BHD (formerly Resourcing Services SDN BHD)	Malaysia	Ord		100	80
Multiport Pty Ltd	Australia	Ord		100	100
Multiport Resources Pty Ltd (formerly AR Group Pty Limited)	Australia	Ord		100	100
National Fire Holdings Pty Limited	Australia	Ord		51	51
National Mutual CPS Management Limited	New Zealand	Ord	2	–	100
National Mutual Funds Management (Global) Limited	Australia	Ord		100	100
National Mutual Funds Management Limited	Australia	Ord		100	100
National Mutual Leasing NZ Limited	New Zealand	Ord	2	–	100
National Mutual Life Nominees Limited	Australia	Ord		100	100
NM Computer Services Pty Ltd	Australia	Ord		100	100
NM New Zealand Nominees Limited (formerly AXA New Zealand Nominees Limited)	New Zealand	Ord		100	100
NM Rural Enterprises Pty Ltd	Australia	Ord		100	100
NM Superannuation Pty Ltd	Australia	Ord		100	100
NMMT Limited	Australia	Ord		100	100
Northstar Lending Pty Ltd	Australia	Ord		100	100
Omega (Australia) Pty Limited	Australia	Ord	3	85	100
One Group Retail Holdings Pty Limited	Australia	Ord		52	52
Pajoda Investments Pty Ltd	Australia	Ord		55	55
Parkside Investorplus Solutions Pty Ltd	Australia	Ord		100	100
PHFT Finance Pty Limited	Australia	Ord		100	100
PPS Lifestyle Solutions Pty Ltd	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 Agency Services Pty Ltd	Australia	Ord		100	100
Priority One Financial Services Limited	Australia	Ord		100	100
Private Wealth Managers Pty Ltd	Australia	Ord		100	100
Quadrant Securities Pty Ltd (formerly Garrisons Pty Ltd)	Australia	Ord		96	95
Quantum Financial Solutions Limited	New Zealand	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	New Zealand	Ord	2	–	100
S.G. Holdings Limited	New Zealand	Ord		100	100
Scrabster Bay Pty Limited	Australia	Ord	2	–	100
SG (Aust) Holdings Pty Ltd	Australia	Ord		100	100
Silverton Securities Pty Ltd	Australia	Ord		100	100
SMSF Advice Pty Ltd (formerly Monere Financial Planning Limited)	Australia	Ord		100	100
Solar Risk Pty Ltd	Australia	Ord		100	100
Spicers Portfolio Management Limited	New Zealand	Ord		100	100
SPP No. 1 (Alexandra Canal) Pty Limited	Australia	Ord		86	86

28. Group controlled entity holdings continued

Name of entity	Country of registration	Share type	Footnote	% Holdings	
				2012	2011
SPP No. 1 (Cowes) Pty Limited	Australia	Ord		86	86
SPP No. 1 (H) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Hawthorn) 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 (Mt. Waverley Financing) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Mt. Waverley) 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 (Port Melbourne) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Q Stores) Pty Limited	Australia	Ord		86	86
SPP No. 1 (Rosebery) Pty Limited	Australia	Ord		86	86
SPP No. 1 Holdings Pty Limited	Australia	Ord		86	86
SPP No. 3A Investments Pty Limited	Australia	Ord	3	85	100
Stephenson & Watt Pty Ltd	Australia	Ord	2	–	100
Sterling Portfolio Management Limited	New Zealand	Ord	2	–	100
Sterrey Financial Planning Pty Ltd	Australia	Ord	2	–	98
Strategic Planning Partners Pty Ltd	Australia	Ord		100	100
Strategic Wealth Solutions Pty Ltd	Australia	Ord		100	100
Sugarland Shopping Centre Pty Limited	Australia	Ord	3	85	100
Sunshine West Development Pty Limited	Australia	Ord		75	75
Sunshine West Income Pty Limited	Australia	Ord	3	85	100
Suwarraow Pty Ltd	Australia	Ord		100	100
Synergy Capital Management Ltd	Australia	Ord		96	95
TFS Financial Planning Pty Ltd	Australia	Ord		100	100
The India Infrastructure Fund LLC	Mauritius	Red Pref		100	100
The National Mutual Life Association of Australasia Limited	Australia	Ord		100	100
TM Fallback Options Pty Ltd	Australia	Ord	2	–	100
TM Securities Pty Ltd	Australia	Ord		100	100
TOA Pty Ltd	Australia	Ord		100	100
Tynan Mackenzie Holdings Pty Ltd	Australia	Ord		73	73
Tynan Mackenzie Pty Ltd	Australia	Ord		98	98
United Equipment Holdings Pty Limited	Australia	Ord		56	56
Walker Lawrence & Associates Pty Ltd	Australia	Ord	2	–	100
Waterfront Place (No. 2) Pty. Ltd.	Australia	Ord		100	100
Waterfront Place (No. 3) Pty. Ltd.	Australia	Ord		100	100
Wilsanik Pty Ltd	Australia	Ord		100	100

1 Controlling interest acquired in 2012.

2 Controlling interest lost in 2012.

3 On 1 March 2012, AMP group completed its sale of 15 per cent of the issued capital of AMP Capital Holdings Limited, a controlled entity, to Mitsubishi UFJ Trust and Banking Corporation (MUTB).

Trusts and other entities Name of entity	Country of registration	Footnote	% Holdings	
			2012	2011
140 St Georges Terrace Trust	Australia		100	100
ACPP Holding Trust	Australia		100	100
ACPP Industrial Trust	Australia		100	100
ACPP Office Trust	Australia		100	100
ACPP Retail Trust	Australia		100	100
Active Quant Share Fund	Australia		75	76
AFS Alternative Fund 1	Australia	1	100	–
AFS Australian Equity Enhanced Index Fund 1	Australia	1	100	–
AFS Australian Equity Growth Fund 1	Australia	1	100	–
AFS Australian Equity Value Plus Fund 1	Australia	1	100	–
AFS Australian Property Securities Fund 1	Australia		100	100
AFS Australian Share Fund 8	Australia	1	100	–
AFS Extended Alpha Fund (formerly AMP Capital Sustainable Extended Alpha Fund)	Australia		100	100
AFS Global Property Securities Fund 1	Australia		100	100
AFS International Share Fund 1	Australia		100	100

28. Group controlled entity holdings continued

Trusts and other entities Name of entity	Country of registration	Footnote	% Holdings	
			2012	2011
Aggressive Enhanced Index Fund	Australia		100	100
AHGI Martineau Fund	Australia		100	100
AHGI Martineau Galleries Fund	Australia		100	100
AMP Capital Alternative Defensive Fund – Delayed Redemption	Australia	1	100	–
AMP Capital Asia ex-Japan Fund	Australia		100	100
AMP Capital Asia Local Currency Bond Fund	Australia	1	100	–
AMP Capital Asian Equity Growth Fund	Australia		75	73
AMP Capital Australian Equity Income Fund	Australia	1	100	–
AMP Capital Australian Equity Long Short Fund	Australia		100	100
AMP Capital Australian Equity Opportunities Fund	Australia	1	81	–
AMP Capital Australian Small Companies Fund	Australia		54	51
AMP Capital Business Space REIT	Singapore		85	100
AMP Capital Corporate Bond Fund	Australia		76	86
AMP Capital Credit Strategies Fund	Australia		91	93
AMP Capital Extended Multi-Asset Fund	Australia	1	71	–
AMP Capital Global Equities Sector Rotation Fund	Australia		100	100
AMP Capital Global Infrastructure Securities Fund (Hedged)	Australia		80	84
AMP Capital Global Infrastructure Securities Fund (Unhedged)	Australia		80	84
AMP Capital Global Resource Fund	Australia	1	100	–
AMP Capital Global Tactical Asset Allocation Fund	Australia	2	–	100
AMP Capital Infrastructure Trust 1	Australia		100	100
AMP Capital Macro Strategies Fund	Australia		85	84
AMP Capital Multi-Asset Fund	Australia		73	99
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund	Australia	2	–	90
AMP Capital Shell Fund 1	Australia	1	65	–
AMP Capital Shell Fund 2	Australia	1	100	–
AMP Capital Sustainable Share Fund	Australia		68	66
AMP Capital Wholesale Office Fund	Australia	3	35	37
AMP Life Cash Management Trust	Australia		100	100
AMP Macquarie Holdings Trust	Australia	2	–	90
AMP Macquarie Trust	Australia	2	–	90
AMP Pacific Fair Trust	Australia	2	–	90
AMP Private Capital Trust No.9	Australia		100	100
AMP Shareholder Cash Fund	Australia	1	100	–
AMP Shareholder Fixed Interest Fund	Australia	1	100	–
AMP UK Shopping Centre Fund	Australia		100	100
AMPCI FD Infrastructure Trust	Australia		97	97
Assure Australasian Equities	New Zealand	2	–	100
Australian Credit Fund	Australia		99	99
Australian Equities Franked Value Fund	Australia	2	–	100
Australian Government Fixed Interest Fund	Australia		100	100
Australian Pacific Airports Fund	Australia		66	66
AWOF New Zealand Office Trust	New Zealand	3	36	37
Balanced Enhanced Index Fund	Australia		100	100
Booragoon Trust	Australia	1	100	–
Bourke Place Unit Trust	Australia	3	25	26
Cautious Enhanced Index Fund	Australia		100	100
Cavendish Administration Unit Trust	Australia	1	100	–
China Strategic Growth Fund	Australia		100	100
Commercial Loan Pool No. 1	Australia		100	100
Conservative Enhanced Index Fund	Australia		99	98
Core Plus Fund	Australia		100	100
Crossroads Trust	Australia		100	100
Davidson Road Trust	Australia		100	100
Diversified Strategies – Diversified Strategy No. 6	Australia	2	–	59
EFM Australian Share Fund 1	Australia		97	97
EFM Australian Share Fund 2	Australia		99	99
EFM Australian Share Fund 3	Australia		98	98
EFM Australian Share Fund 4	Australia		94	94
EFM Australian Share Fund 6	Australia		99	99
EFM Australian Share Fund 7	Australia		98	98
EFM Fixed Interest Fund 2	Australia		96	97
EFM Fixed Interest Fund 3	Australia		95	96
EFM Fixed Interest Fund 4	Australia		94	94
EFM Infrastructure Fund 1	Australia		95	96
EFM International Share Fund 3	Australia		97	97

28. Group controlled entity holdings continued

Trusts and other entities Name of entity	Country of registration	Footnote	% Holdings	
			2012	2011
EFM International Share Fund 5	Australia		97	97
EFM International Share Fund 7	Australia		91	92
EFM Listed Property Fund 1	Australia		96	96
Emerging Market Fund	Australia	2	–	98
Enhanced Index International Share Fund	Australia		81	82
Enhanced Index Share Fund	Australia		89	90
Executive Share Plan Trust	Australia		100	100
FD Australian Share Fund 1	Australia		97	97
FD Australian Share Fund 3	Australia		93	93
FD Global Property Securities Fund 1	Australia	2	–	94
FD International Share Fund 1	Australia		95	95
FD International Share Fund 3	Australia		99	99
FD International Share Fund 4	Australia		96	97
Floating Rate Income Fund	Australia		96	97
Future Directions Asia ex Japan Fund	Australia		74	74
Future Directions Australian Bond Fund	Australia		96	96
Future Directions Australian Share Fund	Australia		93	94
Future Directions Australian Small Companies Fund	Australia		90	89
Future Directions Balanced Fund	Australia		98	98
Future Directions Conservative Fund	Australia		95	94
Future Directions Core International Share Fund 2	Australia		59	58
Future Directions Credit Opportunities Fund	Australia		95	97
Future Directions Diversified Alternatives Fund	Australia	1	97	–
Future Directions Emerging Markets Share Fund	Australia		52	51
Future Directions Enhanced Index Australian Share Fund	Australia		97	97
Future Directions Enhanced Index Global Property Securities Fund	Australia		97	96
Future Directions Enhanced Index International Bond Fund	Australia	2	–	81
Future Directions Geared Australian Share Fund	Australia		93	92
Future Directions Global Credit Fund (formerly FD International Bond Fund 3)	Australia		95	89
Future Directions Global Government Bond Fund	Australia	1	92	–
Future Directions Growth Fund	Australia		97	96
Future Directions Hedged Core International Share Fund	Australia		61	63
Future Directions High Growth Fund	Australia		95	95
Future Directions Inflation Linked Bond Fund	Australia		95	97
Future Directions Infrastructure Fund	Australia		97	97
Future Directions International Bond Fund	Australia		95	93
Future Directions International Share Fund	Australia		58	57
Future Directions Moderately Conservative Fund	Australia		95	95
Future Directions Opportunistic Fund	Australia		97	97
Future Directions Private Equity Fund 1A	Australia		97	97
Future Directions Private Equity Fund 1B	Australia		100	100
Future Directions Private Equity Fund 2A	Australia		97	97
Future Directions Private Equity Fund 2B	Australia		100	100
Future Directions Private Equity Fund 3A	Australia		97	100
Future Directions Private Equity Fund 3B	Australia		100	100
Future Directions Property (Feeder) Fund	Australia		97	96
Future Directions Total Return Fund	Australia		98	97
Genesys Participation Trust	Australia		100	100
Global Credit Fund	Australia		100	100
Global Credit Strategies Fund	Australia		87	87
Global Government Fixed Interest Fund	Australia		100	100
Global Growth Opportunities Fund	Australia		96	96
Global Listed Infrastructure Fund	Australia		100	100
Goldman Sachs Commodity Index Light Energy – E92 Portfolio	Australia	2	–	96
Hindmarsh Square Financial Services Trust	Australia		100	100
International Bond Fund	Australia		93	91
Investment Services Unit Trust	Australia		100	100
ipac Diversified Investment Strategy No2	Australia	1	63	–
ipac Diversified Investment Strategy No4	Australia	1	69	–
Kent Street Investment Trust	Australia		100	100
Kent Street Unit Trust	Australia		100	100
Loftus Street Trust	Australia	3	36	37
Macquarie Balanced Growth Fund	Australia		83	78
Managed Treasury Fund	Australia		92	76
Moderately Aggressive Enhanced Index Fund	Australia		100	100
Moderately Conservative Enhanced Index Fund	Australia		100	100

28. Group controlled entity holdings continued

Trusts and other entities Name of entity	Country of registration	Footnote	% Holdings	
			2012	2011
Monash House Trust	Australia		100	100
Multi-Manager Portfolio – Australian Equities Sector	Australia		100	100
Multi-Manager Portfolio – Balanced	Australia		100	100
Multi-Manager Portfolio – Growth	Australia		100	100
Multi-Manager Portfolio – High Growth	Australia		100	100
Multi-Manager Portfolio – International Equities Sector	Australia		100	100
Multi-Manager Portfolio – International Shares-Hedged	Australia		100	100
Multi-Manager Portfolio – Property Sector	Australia		100	100
Multi-Manager Portfolio – Secure	Australia		100	100
Multi-Manager Portfolio – Secure Growth	Australia		100	100
Principal Healthcare Holdings Trust	Australia		100	100
Private Equity Fund IIIA	Australia		94	94
Private Equity Fund IIIB	Australia		94	94
Progress 2005-1 Trust	Australia		100	100
Progress 2005-2 Trust	Australia		100	100
Progress 2006-1 Trust	Australia		100	100
Progress 2007-1G Trust	Australia		100	100
Progress 2008-1R Trust	Australia		100	100
Progress 2009-1Trust	Australia		100	100
Progress 2010-1Trust	Australia		100	100
Progress 2011-1Trust	Australia		100	100
Progress 2012-1Trust	Australia	1	100	–
Progress 2012-2Trust	Australia	1	100	–
Progress Warehouse Trust No1	Australia		100	100
Progress Warehouse Trust No2	Australia	2	–	100
Responsible Investment Leaders Conservative Fund	Australia		95	94
Responsible Investment Leaders Growth Fund	Australia		97	96
Responsible Investment Leaders High Growth Fund	Australia		100	100
Riverside Plaza Trust	Australia		100	100
Select Property Portfolio No. 1	Australia		86	86
Short Term Credit Fund	Australia		100	100
Sydney Cove Trust	Australia		100	100
The Glendenning Trust	Australia		100	100
The Pinnacle Fund	Australia		99	99
Warringah Mall Trust	Australia	3	50	67
Wholesale Australian Bond Fund	Australia		90	93
Wholesale Australian Equity – Industrials Fund	Australia	2	–	77
Wholesale Core Australian Equity Growth Fund	Australia	2	–	100
Wholesale Core Australian Equity Value Fund	Australia	2	–	100
Wholesale Global Diversified Yield Fund	Australia		100	99
Wholesale Global Equity – Growth Fund	Australia		84	79
Wholesale Global Equity – Growth Fund (Hedged)	Australia		100	100
Wholesale Global Equity – Index Fund (Hedged)	Australia		100	100
Wholesale Global Equity – Index Fund (Unhedged)	Australia		100	100
Wholesale Global Equity – Value Fund (Hedged)	Australia		100	100
Wholesale Unit Trusts NZ Shares Fund	New Zealand	1	100	–

1 Controlling interest acquired in 2012.

2 Controlling interest lost in 2012.

3 Not more than 50 per cent holding, but consolidated because AMP retains control over the operating functions.

28. Group controlled entity holdings continued

In the course of its normal operating investments activities the AMP life insurance entities' statutory funds acquire equity interests in entities which, in some cases, results in AMP holding a controlling interest in some of these investees. Certain controlled entities of the AMP life entities' statutory funds are operating companies which carry out business operations unrelated to the core wealth management operation of the AMP group.

The AMP group has classified operating companies, which are controlled entities of the AMP life entities' statutory funds, as disposal groups held for sale where they are subject to active sale processes at 31 December 2012 and a sale is expected to be completed within a year. These operating companies are being disposed in accordance with the investment strategy of the fund which holds the investment in these entities. As disclosed in note 13, an impairment of \$14m to goodwill was recognised on classification of these operating companies as disposal groups held for sale due to the recoverable amount for impairment testing purposes being calculated on a fair value less cost to sell rather than a value in use basis. All disposal groups are held within the Australian Wealth Management operating segment.

The major classes of assets and liabilities of the disposal groups as at 31 December 2012 are as follows:

	2012 \$m
Assets	
Receivables	55
Inventory and other assets	44
Property, plant and equipment	15
Intangibles	73
Total assets of the disposal groups	187
Liabilities	
Payables	47
Current tax liability	2
Provisions	12
Borrowings	13
Total liabilities of the disposal groups	74
Net assets of the disposal groups	113

29. Associates

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

	Principal activities	Ownership interest		Carrying amount		Country of incorporation
		2012 %	2011 %	2012 \$m	2011 \$m	
AIMS AMP Capital Industrial REIT ^{1,2}	Industrial property trust	5	14	26	58	Singapore
AIMS AMP Capital Property Management Ltd	Property management	50	50	5	4	Singapore
AIMS AMP Capital Industrial REIT Management Ltd	Investment management	50	50	5	4	Singapore
AMP Capital Brookfields Limited ^{3,4}	Investment management	–	50	–	7	Australia
All Financial Services Pty Ltd ⁵	Provision of financial services	49	–	4	–	Australia
Australian Financial Risk Management Pty Ltd	Provision of risk insurance advice	40	40	3	3	Australia
IMB Financial Planning Limited ⁴	Provision of financial services	–	50	–	3	Australia
PSK Financial Services Group Pty Ltd	Provision of financial services	24	24	8	7	Australia
Super IQ Pty Limited	Investment management	49	49	3	5	Australia
Treysta Wealth Management Pty Ltd	Provision of financial services	41	41	6	4	Australia
Other (each less than \$3m)				21	20	
Total investments in associates accounted for using the equity method				81	115	

- 1 The combination of the 14 per cent investment in AIMS AMP Capital Industrial REIT and the joint control of the manager companies is considered to represent significant influence by AMP.
- 2 The value of AMP's investment in AIMS AMP Capital Industrial REIT based on published quoted prices as at 31 December 2012 is \$26m (31 December 2011: \$45m).
- 3 Prior to 1 April 2012, AMPCH group held 50 per cent interest in AMP Capital Investment Management Ltd (formerly known as AMP Capital Brookfield Ltd) applying equity method. From 1 April 2012, AMPCH group acquired the remaining 50 per cent holding in the joint venture making it a wholly owned subsidiary, consolidated as part of the AMP group.
- 4 Ceased being an associate entity during 2011.
- 5 Became an associate entity during 2011.

Aggregated financial information extracted from the financial statements of associates accounted for using the equity method

	2012 \$m	2011 \$m
Assets	1,073	773
Liabilities	359	241
Revenues	121	203
Expenses – including tax	56	136
Profit	65	66
Share of contingent liabilities incurred in relation to associates accounted for using the equity method	nil	nil

29. Associates continued

(b) Investments in associates held by the life entities' statutory funds measured at fair value through profit or loss^{1,2}

	Principal activity ³	Ownership interest		Carrying amount	
		2012 %	2011 %	2012 \$m	2011 \$m
Companies³					
Diversified Commercial Backed Mortgage Securities Pty Ltd	Investment in mortgage securities	43	43	–	29
Gove Aluminium Finance	Investment into aluminium smelter Tomago, NSW	30	30	122	138
Asian Giants Infrastructure	Infrastructure investment	37	37	20	12
Unit trusts³					
Aged Care Investment Trust No. 1	Investment trusts	48	48	73	69
Aged Care Investment Trust No. 2	Investment trusts	48	48	73	69
AMP Capital China Growth Fund	Investment trusts	38	38	87	81
AMP Capital Global Property Securities Fund	Investment trusts	36	27	466	268
AMP Capital Infrastructure Equity Fund (formerly Infrastructure Equity Fund)	Investment trusts	31	29	131	190
AMP Capital NZ Shares Index Fund ⁴	Investment trusts	38	–	74	–
AMP Capital NZ Shares Fund (formerly AIF Equity Units)	Investment trusts	23	43	75	96
AMP Capital Pacific Fair and Macquarie Shopping Centre Fund ⁴	Investment trusts	26	–	304	–
AMP Capital Property Portfolio	Investment trusts	27	38	244	229
AMP Capital Shopping Centre Fund	Investment trusts	34	37	632	642
AMP Capital Strategic NZ Shares Fund	Investment trusts	28	32	121	126
AMP Equity Trust	Investment trusts	42	42	189	181
AMP Investments World Index Fund ⁵	Investment trusts	–	46	–	51
Australian Pacific Airports Fund 3 C Class ⁵	Investment trusts	–	36	–	64
Darling Park Property Trust	Investment trusts	50	50	228	231
Esplanade Property Trust	Investment trusts	50	50	165	158
Future Directions International Small Companies Listed Property Fund	Investment trusts	–	40	–	137
Marrickville Metro Trust	Investment trusts	31	–	57	–
Property Income Fund	Investment trusts	50	50	83	82
Responsible Investments Leader Balanced Fund	Investment trusts	30	35	126	216
Schroder Fixed Income Fund ⁴	Investment trusts	44	42	229	212
Specialist Investment Strategies – International Strategies – Alternative Income Strategy No 1	Investment trusts	24	–	178	–
Specialist Investment Strategies – Australian Strategies – Australian Share Strategy No 1	Investment trusts	26	25	333	301
Specialist Investment Strategies – International Strategies – Global Emerging Markets Strategy No 1	Investment trusts	24	24	808	721
Specialist Investment Strategies – International Strategies – International Fixed Interest Strategy No 2	Investment trusts	24	22	69	57
Specialist Investment Strategies – International Strategies – International Share Strategy No 2	Investment trusts	25	24	190	180
Specialist Investment Strategies – Australian Strategies – Australian Cash Strategy No 1	Investment trusts	23	21	191	161
Strategic Infrastructure Trust Europe 1	Investment trusts	21	20	123	125
Strategic Infrastructure Trust Europe 2	Investment trusts	41	34	80	73
Sugarland Shopping Centre Trust	Investment trusts	41	34	81	73
Value Plus Australia Share Fund	Investment trusts	50	50	52	51
Wholesale Cash Management Trust	Investment trusts	23	25	52	51
Wholesale Global Equity Value Fund	Investment trusts	33	33	129	139
		37	33	76	74

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 holds between a 20 per cent and 50 per cent equity interest. Investments in associated companies and unit trusts are listed where the carrying value is greater than \$20m and \$50m respectively.

4 Trust became an associated entity during 2012.

5 Trust ceased being an associated entity during 2012.

30. Operating lease commitments

	Consolidated		Parent	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Operating lease commitments (non-cancellable)				
Due within one year	79	75	–	–
Due within one year to five years	360	261	–	–
Due later than five years	169	201	–	–
Total operating lease commitments	608	537	–	–

Lease commitments are in relation to AMP group's offices in various locations. Under these arrangements AMP generally pays rent on a period basis at rates agreed at the inception of the lease.

At 31 December 2012, the total of future minimum sublease payments expected to be received under non-cancellable subleases was \$68m (2011: \$13m).

31. Contingent liabilities

The AMP group and the parent entity from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business – including guarantees issued by the parent for the performance of obligations by controlled entities in the AMP group.

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

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 AMP group (or its insurers) in a dispute, accounting standards allow AMP group not to disclose such information and it is AMP group's policy that such information is not to be disclosed in this note.

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

32. Related-party disclosures

(a) Key management personnel (KMP) details

AASB 124 *Related Party Disclosures* defines key management personnel as including all non-executive directors (NEDs), the Chief Executive Officer (CEO) and other persons having authority and responsibility for planning, directing and controlling the activities of the entity (group executives). The following non-executive directors, CEO and group executives of AMP Limited held office during the year:

Chairman	Peter Mason	
Chief Executive Officer and Managing Director	Craig Dunn	
Non-executive directors	Patricia Akopiantz Richard Allert Catherine Brenner Brian Clark Paul Fegan John Palmer Nora Scheinkestel Peter Shergold	
Executives	Craig Meller Stephen Dunne Colin Storrie Brian Salter Lee Barnett Paul Sainsbury Matthew Percival Fiona Wardlaw Jonathan Deane	Managing Director, AMP Financial Services Managing Director, AMP Capital Chief Financial Officer General Counsel Chief Information Officer Integration Director and Managing Director, AMP SMSF General Manager, Public Affairs General Manager, Human Resources General Manager, Group Strategy

(b) Performance rights and options holdings of key management personnel

The following table summarises the holdings of performance rights and options granted to the executive key management personnel.

Name	Holding at 1 Jan 2012	Granted	Exercised	Lapsed	Holding at 31 Dec 2012	Vested and exercisable at 31 Dec 2012
Performance rights						
Craig Dunn	2,204,620	1,110,406	—	777,778	2,537,248	—
Craig Meller	1,050,278	540,609	—	342,593	1,248,294	—
Stephen Dunne	1,050,278	540,609	—	342,593	1,248,294	—
Colin Storrie	75,188	409,898	—	—	485,086	—
Brian Salter	737,872	332,233	—	259,260	810,845	—
Lee Barnett	731,355	330,076	—	256,667	804,764	—
Paul Sainsbury	488,747	280,456	—	148,149	621,054	—
Matthew Percival	540,978	243,781	—	190,000	594,759	—
Fiona Wardlaw	612,019	276,142	—	214,815	673,346	—
Jonathan Deane	501,498	226,522	—	175,926	552,094	—

32. Related-party disclosures continued

(c) Shareholdings of key management personnel

The following table summarises the movements in holdings of shares in AMP Limited held by the key management personnel and their personally related entities.

Name	Holding at 1 Jan 2012	Granted as remuneration during the period	Received on exercise of performance rights or options	Purchased through AMP NEDs Share Plan	Other changes ¹	Holding at 31 Dec 2012
Non-executive directors						
Patricia Akopiantz	10,846	—	—	10,440	—	21,286
Richard Allert	67,237	—	—	10,440	4,661	82,338
Catherine Brenner	38,305	—	—	10,440	1,742	50,487
Brian Clark ³	43,941	—	—	10,440	3,141	57,522
Paul Fegan	23,487	—	—	10,440	—	33,927
Peter Mason	474,698	—	—	35,926	31,925	542,549
John Palmer	62,238	—	—	10,439	4,335	77,012
Nora Scheinkestel ³	112,253	—	—	10,439	7,600	130,292
Peter Shergold	32,784	—	—	10,439	2,412	45,635
Executives						
Craig Dunn ²	558,497	—	—	—	—	558,497
Craig Meller	96,207	—	—	—	—	96,207
Stephen Dunne	209,396	—	—	—	—	209,396
Colin Storrie	39,416	—	—	—	—	39,416
Brian Salter	21,978	—	—	—	782	22,760
Lee Barnett	53,078	—	—	—	—	53,078
Paul Sainsbury	19,928	—	—	—	(19,928)	—
Matthew Percival	45,000	—	—	—	—	45,000
Fiona Wardlaw	61,294	100	—	—	2,287	63,681
Jonathan Deane	93,683	52	—	—	—	93,735

- Other changes include the purchases and sales of shares on market by key management personnel and their related parties and participation in the dividend reinvestment plan.
- AMP Notes are debentures issued by AMP Group Finance Services Limited, a subsidiary of AMP Limited. In addition to his AMP Limited shareholding above, Craig Dunn's related parties hold 1,000 AMP Notes. There were no changes to this holding of AMP Notes between 1 January 2012 and 31 December 2012.
- In addition to their AMP Limited shareholdings above, Brian Clark and Nora Scheinkestel hold 980 and 150 AMP Notes respectively. There were no changes to these holdings of AMP Notes between 1 January 2012 and 31 December 2012.

(d) Share rights holdings of key management personnel

The following table summarises the movements in holdings of share rights held by the key management personnel.

Name	Holding at 1 Jan 2012	Granted as remuneration during the period ¹	Exercised	Lapsed	Holding at 31 Dec 2012
Executives					
Craig Dunn	—	247,513	—	—	247,513
Craig Meller	—	146,961	—	—	146,961
Stephen Dunne	—	158,867	—	—	158,867
Colin Storrie	47,620	69,060	—	—	116,680
Brian Salter	—	82,872	—	—	82,872
Lee Barnett	—	85,635	—	—	85,635
Paul Sainsbury	—	78,453	—	—	78,453
Matthew Percival	—	63,535	—	—	63,535
Fiona Wardlaw	—	71,823	—	—	71,823
Jonathan Deane	—	60,773	—	—	60,773

- Granted as remuneration during the period includes STI deferral plan share rights. Information regarding the STI deferral plan can be found in note 27 Share-based payments.

32. Related-party disclosures continued

Remuneration of key management personnel

The following table provides a total of the remuneration received by the key management personnel. For further details regarding remuneration of key management personnel see the remuneration report which forms part of the directors' report.

	Short-term benefits \$'000	Post employment benefits \$'000	Share-based payments \$'000	Other long-term benefits \$'000	Termination benefits \$'000	Total \$'000
Non-executive directors¹						
2012	2,952	230	–	–	–	3,182
2011	3,042	221	–	–	–	3,263
As disclosed in 2011 ²	3,215	237	–	–	–	3,452
Key management personnel excluding non-executive directors						
2012	14,874	315	8,328	–	–	23,517
2011	12,824	151	7,784	(4)	–	20,755
As disclosed in 2011 ²	14,374	167	8,746	(4)	1,694	24,977
All key management personnel						
2012³	17,826	545	8,328	–	–	26,699
2011 ³	15,866	372	7,784	(4)	–	24,018
As disclosed in 2011 ²	17,589	404	8,746	(4)	1,694	28,429

1 Non-executive directors are not entitled to short-term incentive payments. Short-term benefits only include fees and allowances.

2 This represents the amount paid to those individuals considered key management personnel and disclosed as such in the 2011 financial report.

3 These amounts represent the total remuneration paid to the key management personnel listed in note 32(a) for 2012 and 2011.

(e) Transactions with key management personnel

During the year, key management personnel and their personally related entities have entered into transactions with the parent entity or its subsidiaries. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect AMP would have adopted if dealing at arm's length with an unrelated individual. These transactions include:

- normal personal banking with AMP Bank Limited including the provision of credit cards
- 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.

The following tables provide details of loans made to key management personnel and their related parties by AMP or any of its subsidiaries.

	Balance at 1 Jan 2012 \$'000	Written off \$'000	Net advances (repayments) \$'000	Balance at 31 Dec 2012 \$'000	Interest charged \$'000	Interest not charged \$'000	Number in group
Key management personnel and their related parties¹	5,182	–	(1,826)	3,356	320	–	5

Individuals and their related parties with loans above \$100,000 during the reporting period.

	Balance at 1 Jan 2012 \$'000	Written off \$'000	Net advances (repayments) \$'000	Balance at 31 Dec 2012 \$'000	Interest charged \$'000	Interest not charged \$'000	Highest indebtedness in period \$'000
Craig Dunn	692	–	(145)	547	41	–	706
Lee Barnett	44	–	(44)	–	1	–	133
Jonathan Deane	543	–	(207)	336	24	–	543
Craig Meller	2,030	–	(216)	1,814	134	–	2,160
Paul Sainsbury	1,873	–	(1,214)	659	120	–	3,750

1 All loans to key management personnel and their related parties are provided by AMP Bank and are on similar terms and conditions generally available to other employees within the group. No guarantees are given or received in relation to these loans.

33. Auditors' remuneration

	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Amounts received or due and receivable by auditors of AMP Limited for:				
Audit services				
Audit or review of financial statements	11,372	10,966	140	140
Other audit services ¹	2,383	1,932	–	–
Total audit service fees	13,755	12,898	140	140
Total non-audit services²	2,822	1,187	–	–
Total amounts received or due and receivable by auditors of AMP Limited^{3,4}	16,577	14,085	140	140

- 1 Other audit services includes fees for reviews of the full year and half year investor reports, compliance audits and other audit procedures performed for vehicles controlled by AMP life insurance entities' statutory funds and those managed by AMP Capital.
- 2 Non-audit services include tax and compliance advice, AMP Bank securitisation opinions, business project advice, services in relation to a target operating model and other procedures performed for investment vehicles owned by AMP Life insurance entities' statutory funds.
- 3 Includes fees paid to Ernst & Young affiliates overseas.
- 4 Periodically, the AMP 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 AMP 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 AMP group, unrelated to their audit work.

34. Events occurring after reporting date

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the reporting date that has significantly affected or may significantly affect the entity's operations in future years; the results of those operations in future years; or the entity's state of affairs in future years which is not already reflected in this report, other than the following:

- From 1 January 2013, revised APRA Life and General Insurance Capital (LAGIC) standards apply to AMP Life Limited and The National Mutual Life Association of Australasia Limited (the AMP life insurance entities) and the North guarantee product. Under LAGIC, the AMP group regulatory capital resources above MRR of \$2,420m will exclude the policyholder surplus of \$776m. While not included in the capital position, policyholder surpluses remain available to absorb adverse market and other impacts in the participating business.

As a result of applying LAGIC on 1 January 2013, AMP group's capital requirement increased by \$272m. AMP group strengthened its capital position during 2012 in anticipation of these changes and AMP group's shareholder surplus above MRR increased from \$990m at 31 December 2011 to \$1,644m at 31 December 2012. The LAGIC requirements have now reduced the surplus to \$1,372m at 1 January 2013. A number of capital efficiency initiatives are being targeted in 2013 to reduce capital requirements in the AMP life insurance entities and for the North product. The AMP life insurance entities continue to meet minimum regulatory requirements.

- On 21 February 2013, AMP announced a final dividend on ordinary shares of 12.5 cents per share. Details of the announced dividend and dividends paid and declared during the year are disclosed in note 18 of the financial report.

Directors' declaration

for the year ended 31 December 2012

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

- (a) in the opinion of the directors there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable
- (b) in the opinion of the directors the financial statements and the notes are in accordance with the *Corporations Act 2001*, including section 296 (compliance with accounting standards) and section 297 (true and fair view)
- (c) the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards as discussed in note 1(a)
- (d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001*.



Peter Mason

Chairman

Sydney, 21 February 2013



Craig Dunn

Chief Executive Officer and Managing Director



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Independent auditor's report to the members of AMP Limited

Report on the financial report

We have audited the accompanying financial report of AMP Limited, which comprises the statements of financial position as at 31 December 2012, the 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 included in the directors' report.

Opinion

In our opinion:

- a. the financial report of AMP 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 2012 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the remuneration report of AMP Limited for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Andrew Price
Partner
Sydney
21 February 2013

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approved under Professional
Standards Legislation

Shareholder information

Distribution of shareholdings as at 22 February 2013

Range	Number of holders	Ordinary shares held	% of issued capital
1–1,000	612,758	270,377,662	9.23
1,001–5,000	223,971	457,443,121	15.61
5,001–10,000	22,817	162,080,052	5.53
10,001–200,000	12,164	269,726,394	9.20
200,001 and over	174	1,770,796,317	60.43
Total	871,884	2,930,423,546	100.00

At the end of 2012, AMP ran a Small Shareholding Sale Facility to provide shareholders who held small numbers of AMP shares with the opportunity to sell their shares, free of charge, at a market price. Through the Sale Facility, 43,669 shareholders sold 1,941,443 shares and a further 510 shareholders donated \$31,508 in sale proceeds to charity. As at 22 February 2013, the total number of shareholders holding less than a marketable parcel of 95 shares is 6,008.

Twenty largest shareholdings as at 22 February 2013

Rank	Name	Ordinary shares held	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	586,408,158	20.01
2	J P Morgan Nominees Australia Limited	378,156,686	12.90
3	National Nominees Limited	328,194,165	11.20
4	Citicorp Nominees Pty Limited	82,225,556	2.81
5	BNP Paribas Noms Pty Ltd <DRP>	47,216,696	1.61
6	J P Morgan Nominees Australia Limited <Cash Income A/C>	44,604,685	1.52
7	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	26,736,122	0.91
8	HSBC Custody Nominees (Australia) Limited – GSCO ECA	24,763,837	0.85
9	AMP Life Limited	24,153,483	0.82
10	HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C>	21,058,346	0.72
11	Australian Foundation Investment Company Limited	20,100,422	0.69
12	Argo Investments Limited	12,231,674	0.42
13	RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	11,864,032	0.40
14	UBS Wealth Management Australia Nominees Pty Ltd	11,175,185	0.38
15	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	9,524,220	0.33
16	Djerriwarrh Investments Limited	5,713,115	0.19
17	RBC Investor Services Australia Nominees Pty Limited <MBA A/C>	5,477,848	0.19
18	Share Direct Nominees Pty Ltd <10026 A/C>	4,998,402	0.17
19	Navigator Australia LTD <MLC Investment Sett A/C>	4,882,023	0.17
20	Buttonwood Nominees Pty LTD	4,765,587	0.16
Total		1,654,250,242	56.45%

Substantial shareholders

The company has received no substantial shareholding notices.

Total number of holders of ordinary shares and their voting rights

As at 22 February 2013, the share capital of AMP Limited consisted of 2,930,423,546 ordinary shares held by 871,884 shareholders. The voting rights attached to the shares are that each registered holder of shares present in person (or by proxy, attorney or representative) at a meeting of shareholders has one vote on a vote taken by a show of hands, and one vote for each fully paid share held on a vote taken at a poll.

Total number of options over unissued shares and option holders

As at 22 February 2013, AMP Limited had no options on issue over unissued ordinary shares in AMP Limited.

Stock exchange listings

AMP Limited is listed on the Australian Securities Exchange and on the New Zealand Stock Exchange.

Restricted securities

There are no restricted securities on issue.

Buyback

There is no current on-market buy-back.

Glossary

Closed products

Products within AMP's Mature business that are not open to new customers.

Contingent liabilities

A situation existing at reporting date, where past events have led to a possible obligation, the outcome of which depends on uncertain future events, or an obligation where the outcome is not sufficiently probable or reliably measurable to warrant recognising the liability at this reporting date.

Controllable costs

Costs that AMP incurs in running its business. Controllable costs include operational and project costs and exclude variable costs, provision for bad and doubtful debts and interest on corporate debt.

Demerger

AMP's demerger on 23 December 2003 created separate businesses: AMP in Australasia and Henderson Group in the United Kingdom.

Earnings per share

Each earnings per share (EPS) calculation represents the relevant profit amount divided by the weighted average number of shares on issue during the year.

Embedded value

A calculation relating to the AMP Financial Services business, other than AMP Bank, of the economic value of the shareholder capital in the business and the future shareholder profits expected to emerge from the business currently in-force (expressed in today's dollars).

Franked dividends

Dividends paid which have franking credits attached. The franking credits represent the income tax paid by the company paying the dividend, which can be used as a tax credit by Australian resident shareholders receiving the dividend.

Investment performance

A measure of how well we manage funds on behalf of our customers. The percentage of assets managed by AMP which met or exceeded their respective benchmarks.

Long-term incentive

A long-term incentive (LTI) is an award primarily provided in the form of performance rights or share rights, to align an executive's interest with the interests of shareholders. LTIs at AMP are subject to a performance hurdle and/or a service requirement.

Operating earnings

Total operating earnings are the shareholder profits that relate to the performance of AMP's operating units (AMP Financial Services, AMP Capital and group office). Operating earnings exclude investment earnings on shareholder capital and certain one-off items.

Option

A right to acquire an AMP share at a pre-determined price during an exercise period, subject to meeting performance hurdles. AMP has not offered options under its employee or executive option plans since 2002.

Performance right

A form of executive remuneration designed to reward long-term performance. Selected executives are granted performance rights. Each performance right is a right to acquire one AMP share after a three-year performance period, as long as a specific performance hurdle is met.

Restricted share

A form of executive remuneration designed to reward long-term performance. Selected executives are granted restricted shares. A restricted share is an ordinary AMP share that has a holding lock in place until a three-year vesting period ends.

Short-term incentive (STI)

A cash payment based on performance during the year against pre-defined business objectives aligned to company strategy.

Underlying investment income

Underlying investment income is based on long-term expected rates of return. Actual investment income can be higher or lower than the long-term rate from year to year.

Underlying profit

Underlying profit (which removes one-off costs and some of the effect of investment market volatility) is calculated by aggregating operating earnings, interest expense on corporate debt, recognition of tax losses and underlying investment income.

Underlying return on equity

A measure of the return a company makes on shareholder equity. Return on equity (RoE) for the year is calculated as underlying profit divided by average monthly shareholder equity during the year.

Vesting

Remuneration term defining the point at which the required performance hurdles have been met and a financial benefit may be realised by the recipient.

Contact the AMP share registry

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AMP Limited is incorporated and domiciled in Australia.
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