

AMP Life Limited

ABN 84 079 300 379

**Directors' report and Financial report
for the year ended
31 December 2016**

AMP Life Limited

Directors' Report

for the year ended 31 December 2016

The directors of AMP Life Limited ('AMP Life' or 'the company') present their report on the company for the financial year ended 31 December 2016.

AMP Life Limited is a company limited by shares and is incorporated and domiciled in Australia. AMP Financial Services Holdings Limited is the company's parent entity and AMP Limited is the ultimate parent entity.

The Registered Office of the company is at 33 Alfred Street, Sydney, NSW 2000.

Directors

The directors of the company during the year and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise.

Trevor Matthews	Chairman, Non-executive Director	Appointed Chairman 12 May 2016
Megan Beer	Managing Director	Appointed 29 November 2016
Craig Meller	Executive Director	
Anthony Coleman	Non-executive Director	
Diana Ellert	Non-executive Director	
Andrew Harmos	Non-executive Director	
Holly Kramer	Non-executive Director	Appointed 12 May 2016
Peter Shergold	Non-executive Director	
Mike Wilkins	Non-executive Director	Appointed 21 October 2016
Catherine Brenner	Chairman, Non-executive Director	Resigned 12 May 2016
Pauline Blight-Johnston	Managing Director	Resigned 29 November 2016

Principal activities

AMP Life provides a range of products and services to customers in Australia and New Zealand. These products and services are primarily distributed through self-employed financial planners and advisers aligned with AMP. These products and services include superannuation, investments, retirement savings, income protection and life insurance. There have been no significant changes in the nature of these activities during the year.

Review of operations and results

The operating result for the year ended 31 December 2016 was a profit after tax of \$308m (2015: \$575m).

Dividends and distributions

Details of the dividends paid and dividends recommended or declared for payment but not paid are disclosed in Note 1.4 of the Financial Report.

Significant changes in the state of affairs

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

Events occurring after reporting date

On 1 January 2017, the Australian and New Zealand life insurance business of The National Mutual Life Association of Australasia Limited ("NMLA") was transferred to AMP Life Limited ("AMP Life"), both wholly owned controlled entities of the AMP Limited Group.

The transfer was completed using a scheme ("Scheme") under Part 9 of the Life Insurance Act 1995 in Australia and s44-53 of the Insurance (Prudential Supervision) Act 2010 in New Zealand. The Scheme was approved by regulators in Australia and New Zealand and confirmed by the Federal Court of Australia.

The transfer involved all of the Australian and New Zealand life policies and insurance liabilities of NMLA, as well as certain assets and liabilities related to that business. Following the transfer, NMLA policies are treated as if they had been issued and administered by AMP Life rather than NMLA.

Assets of \$13.4 billion and liabilities of \$12.0 billion were transferred at their carrying values in NMLA immediately prior to the transfer. Because NMLA and AMP Life have the same accounting policies for these assets and liabilities, there were no adjustments to the carrying values of the transferred assets and liabilities. NMLA and AMP Life have accounted for the transfer as equity transactions with their respective parents whereby the net assets decrease in NMLA and the net assets increase in AMP Life of \$1.4 billion have been treated as changes in equity and there was no impact on profit and loss from the transfer transaction.

On 3 February 2017, AMP Life declared a \$420m final dividend of \$17.17 per share and approved a capital return of \$500m to AMP Financial Services Holdings Limited.

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

- The operations of the company in future years;
- The results of those operations in future years; or
- The state of affairs of the company in future financial years.

AMP Life Limited

Directors' Report

for the year ended 31 December 2016

Likely developments

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

Environmental regulation

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

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

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

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

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

Indemnification and Insurance of directors and officers

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

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

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

AMP Group Holdings Limited ("AMPGH") has entered into a deed of indemnity and access with each director and secretary of the company. Each deed of indemnity and access provides that:

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

Auditor's independence

The directors have obtained an independence declaration from the company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2016.

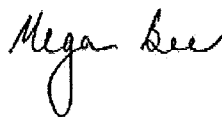
Rounding

In accordance with the ASIC Corporations Instrument 2016/191, amounts in this Directors' Report and the accompanying Financial Report have been rounded off to the nearest million Australian dollars, unless stated otherwise.

Signed in accordance with a resolution of the directors.



Trevor Matthews
Director



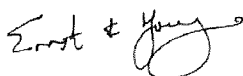
Megan Beer
Director

Sydney, 8 February 2017

Auditor's Independence Declaration to the Directors of AMP Life Limited

As lead auditor for the audit of AMP Life Limited for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

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



Ernst & Young



Kieren Cummings
Partner
8th February 2017

AMP LIFE LIMITED
ABN 84 079 300 379
FULL YEAR FINANCIAL REPORT
31 DECEMBER 2016

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Registered office:
33 Alfred Street
Sydney NSW 2000 Australia

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

Statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 \$m	2015 \$m
Income and expenses of the shareholder and policyholders¹			
Life insurance contract related revenue	4.2	1,816	1,274
Life insurance claims recovered from reinsurers	4.2	59	43
Fee revenue	1.1	1,072	1,120
Other revenue		-	13
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss		5,482	5,241
Share of profit of associates accounted for using the equity method		8	6
Life insurance contract claims expense	4.2	(1,248)	(1,226)
Life insurance contract premiums ceded to reinsurers	4.2	(122)	(60)
Fees and commission expenses	12	(593)	(610)
Other operating expenses	12	(703)	(759)
Finance costs		(18)	(23)
Change in policyholder liabilities			
- life insurance contracts	4.2	(1,018)	(216)
- investment contracts		(4,226)	(4,057)
Income tax (expense) credit	13	(201)	(171)
Profit for the year		308	575
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
- gains (losses) in fair value of cash flow hedges		-	1
Exchange differences on translation of foreign operations			
- gains (losses)		7	(1)
Other comprehensive income for the year		7	-
Total comprehensive income for the year		315	575

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

Statement of financial position

as at 31 December 2016

	Note	2016 \$m	2015 \$m
Assets			
Cash and cash equivalents	6.1	2,534	2,721
Receivables and prepayments	2.3	722	735
Intercompany tax receivable		9	7
Current tax assets		-	34
Investments in financial assets	2.1	87,161	85,133
Investment property		-	147
Investments in associates accounted for using the equity method	5.3	283	282
Property, plant and equipment		45	45
Deferred tax assets	1.3	306	173
Reinsurance asset- ceded life insurance contracts	4.2	94	77
Intangibles	2.2	517	517
Total assets of policyholders and the shareholder		91,671	89,871
Liabilities			
Payables	2.4	1,076	1,188
Intercompany tax payable		137	186
Current tax liabilities		3	41
Provisions		8	9
Other financial liabilities	2.1	213	203
Interest-bearing liabilities	3.2	306	310
Borrowings from related parties		392	446
Deferred tax liabilities	1.3	1,532	1,619
Life insurance contract liabilities	4.2	18,131	17,979
Investment contract liabilities		66,328	64,594
Reinsurance liability - ceded life insurance contracts	4.2	530	-
Total liabilities of policyholders and the shareholder		88,656	86,575
Net assets of the shareholder of AMP Life Limited		3,015	3,296
Equity			
Contributed equity	3.1	939	939
Reserves		86	79
Retained earnings		1,990	2,278
Total equity of the shareholder of AMP Life Limited		3,015	3,296

Statement of changes in equity

for the year ended 31 December 2016

	Note	Contributed equity \$m	Cash flow hedge reserve \$m	Foreign currency translation reserve \$m	Retained earnings \$m	Total equity \$m
2016						
Balance at the beginning of the year		939	21	58	2,278	3,296
Profit (loss)		-	-	-	308	308
Other comprehensive income		-	-	7	-	7
Total comprehensive income		-	-	7	308	315
Dividends paid - ordinary shares	1.4	-	-	-	(581)	(581)
Distributions paid - capital notes	1.4	-	-	-	(15)	(15)
Balance at the end of the year		939	21	65	1,990	3,015
2015						
Balance at the beginning of the year		911	20	59	2,251	3,241
Profit (loss)		-	-	-	575	575
Other comprehensive income		-	1	(1)	-	-
Total comprehensive income		-	1	(1)	575	575
Return of ordinary share capital		(190)	-	-	-	(190)
Issue of share capital	3.1	13	-	-	-	13
Capital notes issued	3.1	205	-	-	-	205
Dividends paid - ordinary shares	1.4	-	-	-	(545)	(545)
Distributions paid - capital notes	1.4	-	-	-	(3)	(3)
Balance at the end of the year		939	21	58	2,278	3,296

Statement of cash flows

for the year ended 31 December 2016

	Note	2016 \$m	2015 \$m
Cash flows from operating activities			
Cash receipts in the course of operations		15,035	16,250
Interest and other items of a similar nature received		440	468
Dividends and distributions received		788	564
Cash payments in the course of operations		(17,669)	(17,641)
Finance costs		(18)	(22)
Income tax refunded (paid)		(476)	(322)
Cash flows from (used in) operating activities	6.1	(1,900)	(703)
Cash flows from investing activities			
Net proceeds from sale of/(payments to acquire):			
- investment property		147	-
- investments in financial assets		2,312	1,694
- investment in associates accounted for using the equity method		-	(268)
Cash flows from investing activities		2,459	1,426
Cash flows from financing activities			
Proceeds from issue of share capital		-	218
Payment for the return of share capital	3.1	-	(190)
Payments for borrowings		(58)	(8)
Dividends and distributions paid	1.4	(596)	(548)
Cash flows from (used in) financing activities		(654)	(528)
Net increase (decrease) in cash and cash equivalents		(95)	195
Cash and cash equivalents at beginning of the year		3,775	3,579
Effect of exchange rate changes on cash and cash equivalents		1	1
Cash and cash equivalents at the end of the year	6.1	3,681	3,775

About this report

(a) What's new in this report?

We have reviewed the content and structure of the financial report and identified opportunities to reduce complexity and to make it more relevant to stakeholders.

As part of this review we have made a number of changes to the financial report including:

- Removing immaterial disclosures that may undermine the usefulness of the financial report by distracting from important information,
- Disaggregating balances (including prior year comparatives) to show amounts separately on the Statement of comprehensive income and Statement of financial position, and
- Grouping the notes to the financial statements into six sections:
 1. Results for the year
 2. Investments, intangibles and working capital
 3. Capital structure and financial risk management
 4. Life insurance and investment contracts
 5. Related party disclosures
 6. Other disclosures.

Materiality

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

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

(b) Understanding AMP Life financial report

AMP Life Limited ('AMP Life' or 'the company'), a company limited by shares, is incorporated and domiciled in Australia. This financial report includes financial statements for AMP Life as a single entity only.

The business of AMP Life is conducted through statutory funds and relates to the provision of wealth management and life insurance products to investors, referred to as policyholders. A large proportion of the investment assets of the statutory funds is held on behalf of policyholders. The corresponding liabilities to policyholders are classified as either life investment or life insurance contract liabilities.

Consolidated information has not been prepared to show the financial position and operations of AMP Life and its controlled entities at, or during the year ended 31 December 2016 in accordance with exemptions available under Australian Accounting Standards. Consolidated information has been prepared and is available for the ultimate parent, AMP Limited, and its controlled entities.

AMP Life is a registered life insurance entity, predominantly a wealth management business conducting operations through the life insurance company. Where permitted under Australian Accounting Standards, the assets and liabilities associated with life insurance and investment contracts are generally measured on a fair value basis and other assets and liabilities are generally measured on a historical cost basis.

The financial report:

- is a general purpose financial report;
- has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AAS) including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board;
- is presented in Australian Dollars with all values rounded to the nearest million dollars (\$m), unless otherwise stated,
- has been prepared on a going concern basis using an historical cost basis except for the following items in the Statement of financial position which are generally measured on a fair value basis:
 - assets and liabilities associated with life insurance contracts
 - assets and liabilities associated with investment contracts
- presents assets and liabilities on the face of the Statement of financial position in decreasing order of liquidity and does not distinguish between current and non-current items,
- presents reclassified comparative information where required for consistency with the current year's presentation.

Estimates of amounts expected to be recovered or settled (a) no more than 12 months after the reporting date ('current'), and (b) more than 12 months after the reporting date ('non-current'), have been provided in the relevant notes.

AMP Life Limited is a for-profit entity.

The financial statements for the year ended 31 December 2016 were authorised for issue on 8 February 2017 in accordance with a resolution of the directors.

About this report

(c) Significant accounting policies

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

Interest, dividends and distributions income

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

Foreign currency transactions

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

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

Foreign exchange gains and losses resulting from translation of foreign exchange transactions are recognised in the Profit or loss.

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

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

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

(d) Critical judgements and estimates

Preparation of the financial statements requires management to make judgements, estimates and assumptions about future events. Information on critical judgements and estimates considered when applying the accounting policies can be found in the following notes:

Accounting judgements and estimates	Note	Page
Tax	Note 1.3 Taxes	12
Fair value of financial assets	Note 2.1 Financial assets and other financial liabilities	15
Goodwill and acquired intangible assets	Note 2.2 Intangibles	16
Life insurance contract liabilities	Note 4.1 Accounting for life insurance and investment contracts	31
Investment contract liabilities	Note 4.1 Accounting for life insurance and investment contracts	31
Controlled entities	Note 5.1 Controlled entities	52

Section 1: Results for the year

- 1.1 Fee revenue
- 1.2 Operating expenses
- 1.3 Taxes
- 1.4 Dividends and distributions

1.1 Fee revenue

	2016 \$m	2015 \$m
Investment management and contract fees	1,026	1,074
Service fees		
- related entities	46	46
Total fee revenue	1,072	1,120

Accounting policy – recognition and measurement

Fee revenue

Fees are charged to customers in connection with investment contracts and other financial services contracts. Fee revenue is recognised as services are provided either at inception of the contract or as they are performed over the life of the contract. For example 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.

Notes to the financial statements

for the year ended 31 December 2016

Section 1: Results for the year**1.2 Operating expenses**

	2016 \$m	2015 \$m
Commission and advisory fee-for-service expense	(345)	(375)
Investment management expenses		
- related entities	(235)	(225)
- other entities	(13)	(10)
Fees and commission expenses	(593)	(610)
Service fee expense		
- related entities	(633)	(679)
Other expenses	(70)	(80)
Other operating expenses	(703)	(759)

Notes to the financial statements

for the year ended 31 December 2016

Section 1: Results for the year**1.3 Taxes****(a) Income tax expense**

The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders. In respect of income tax expense attributable to shareholders, the tax rate which applies is 30% in Australia and 28% in New Zealand.

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

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

	2016 \$m	2015 \$m
Profit before income tax	509	746
Policyholder tax (expense) credit recognised as part of the change in policyholder liabilities in determining profit before income tax	(92)	55
Profit before income tax excluding tax charged to policyholders	417	801
Tax at the Australian tax rate of 30%(2015: 30%)	(125)	(240)
Shareholder impact of life insurance tax treatment	(12)	(10)
Non-deductible expenses	(4)	(4)
Non-taxable income	6	11
Other items	25	16
(Under)/over provided in previous years after excluding amounts attributable to policyholders	-	-
Differences in overseas tax rate	1	1
Income tax (expense) credit attributable to shareholders	(109)	(226)
Income tax (expense) credit attributable to policyholders	(92)	55
Income tax (expense) credit per Statement of comprehensive income	(201)	(171)

Notes to the financial statements

for the year ended 31 December 2016

Section 1: Results for the year**1.3 Taxes (continued)****(b) Analysis of income tax (expense) credit**

	2016 \$m	2015 \$m
Current tax (expense) credit	(425)	(335)
Increase (decrease) in deferred tax assets	131	(50)
(Increase) decrease in deferred tax liabilities	92	196
Over provided in previous years including amounts attributable to policyholders	1	18
Income tax (expense) credit	(201)	(171)

(c) Analysis of deferred tax balances

	2016 \$m	2015 \$m
Analysis of deferred tax assets		
Expenses deductible and income recognisable in future years	252	139
Unrealised movements on borrowings and derivatives	17	-
Unrealised investment losses	21	22
Other	16	12
Total deferred tax assets	306	173
Analysis of deferred tax liabilities		
Unrealised investment gains	1,344	1,410
Unrealised movements on borrowings and derivatives	-	20
Other	188	189
Total deferred tax liabilities	1,532	1,619

Section 1: Results for the year

1.3 Taxes (continued)

Accounting policy – recognition and measurement

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. These changes are attributable to:

- temporary differences between the tax bases of assets and liabilities and their Statement of financial position carrying amounts
- unused tax losses
- the impact of changes in the amounts of deferred tax assets and liabilities arising from changes in tax rates or in the manner in which these balances are 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 Statement of comprehensive income of AMP Life, reflects tax imposed on shareholders as well as policyholders. Investment contracts liabilities and life insurance contracts liabilities are established in Australia net, and in New Zealand gross, of the policyholders' share of any current tax payable and deferred tax balances of AMP Life. Arrangements made with some superannuation funds result in 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 and are measured at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on tax rates that have been enacted or substantively enacted for each jurisdiction at the reporting date. Deferred tax assets and liabilities, including amounts in respect of investment contracts and life insurance contracts, are not discounted to present value.

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

Tax consolidation

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

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

Critical accounting estimates and judgements:

AMP Life is subject to taxes in Australia and other jurisdictions where it has operations. The application of tax law to the specific circumstances and transactions of AMP Life requires the exercise of judgement by management. The tax treatments adopted by management in preparing the financial statements may be impacted by changes in legislation and interpretations or be subject to challenge by tax authorities.

Judgement is also applied by management in determining the extent to which the recovery of carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets.

Notes to the financial statements

for the year ended 31 December 2016

Section 1: Results for the year**1.4 Dividends and distributions**

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

	2016 \$m	2015 \$m
Unfranked dividend of \$23.75 (2015: \$22.28) per ordinary share	(581)	(545)
Distributions paid - capital notes	(15)	(3)
Total dividends and distributions paid	(596)	(548)
Final dividend proposed but not recognised		
2016:\$17.17 (2015:\$12.96) per ordinary share	(420)	(317)

Notes to the financial statements

for the year ended 31 December 2016

Section 2: Investments, intangibles and working capital

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

2.1 Investments in financial instruments

	2016 \$m	2015 \$m
Financial assets measured at fair value through profit or loss		
Equity securities and listed managed investment schemes ¹	8,530	9,492
Debt securities ²	8,864	9,582
Investments in unlisted equity securities and managed investment schemes ³	69,474	65,716
Derivative financial assets	220	272
Other financial assets	5	9
Total financial assets measured at fair value through profit or loss	87,093	85,071
Investments in controlled entities at cost	68	62
Total investments in financial assets	87,161	85,133
Other financial liabilities		
Derivative financial liabilities	186	176
Collateral deposits held ²	27	27
Total other financial liabilities	213	203

¹ Includes investments in controlled entities of \$30m (2015: \$143m).

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

³ Includes investments in controlled entities of \$64,306m (2015: \$59,945m).

Notes to the financial statements

for the year ended 31 December 2016

Section 2: Investments, intangibles and working capital

2.1 Investments in financial instruments (continued)

Accounting policy – recognition and measurement

Financial assets measured at fair value through profit or loss

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

Recognition and de-recognition of financial assets and liabilities

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

Impairment of financial assets

Assets measured at fair value, where changes in fair value are reflected in the Statement of comprehensive income, are not subject to impairment testing.

Other assets subject to impairment testing include: investments in associates accounted for using the equity method, property, plant and equipment, intangible assets including goodwill and investments in controlled entities at cost.

Critical accounting estimates and judgements:

Financial assets measured at fair value

Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs.

Further detail on the determination of fair value of financial instruments is set out in Section 2.5.

Section 2: Investments, intangibles and working capital

2.2 Intangibles

	2016 \$m	2015 \$m
Gross carrying amount	517	517
Less: impairment losses	-	-
Intangibles at written down value	517	517

Accounting policy – Recognition and measurement

Goodwill

Goodwill acquired in a business combination is recognised at cost and subsequently measured at cost less any accumulated impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets acquired and liabilities assumed.

Impairment testing

Goodwill is tested at least annually for impairment.

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

Goodwill attributable to shareholders

The goodwill attributable to shareholders of \$517m (2015: \$517m) arose from a previous Life Act Part 9 transfer of life insurance business into the statutory funds of AMP Life.

For the purpose of impairment testing, the amount is allocated to a CGU for the purpose of assessing goodwill as follows:

\$m	2016	2015
Australian wealth management	387	387
Australian wealth protection	65	65
Australian mature	65	65
	517	517

The recoverable amount for each CGU has been determined by the fair value less costs of disposal based on the estimated embedded value plus the value of one year's new business times a multiplier of 10 to 15.

The estimated embedded value is a calculation that represents the economic value of the shareholder capital in the business and the future profits expected to emerge from the business currently in-force expressed in today's dollars.

The estimated embedded value and value of one year's new business has been calculated based on the following key assumptions and estimates:

- 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, estimated over the expected life of the in-force policies which varies depending on the nature of the product
- future maintenance and investment expenses based on unit costs derived from budgeted amounts for the following year and increased in future years for expected rates of inflation
- Risk discount rate based on an annualised 10 year government bond yield plus a discount margin of 3% (2015: 3%); Australia 5.8% (2015: 5.9%), New Zealand 6.4% (2015: 6.6%), for calculating the value of in-force and new business.

Assumptions applied in this valuation are consistent with the best estimate assumptions used in calculating the policy liabilities of AMP Life (excluding the risk discount rate).

Section 4.3 provides further details of 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.

Impairment loss

At the reporting date, there has been no impairment to the amount of goodwill recognised and there are no reasonably possible changes in key assumptions that could cause the carrying amount to exceed the recoverable amount.

Critical accounting estimates and judgements:

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

- Allocation of goodwill to CGUs and determining the recoverable amount of goodwill
- Assessment of whether there are any impairment indicators and, where required, in determining the recoverable amount.

Section 2: Investments, intangibles and working capital

2.3 Receivables and prepayments

	2016 \$m	2015 \$m
Investment related receivables	339	400
Life insurance contract premiums receivable	270	265
Reinsurance receivables	52	15
Trade debtors and other receivables		
- related entities	48	37
- other entities	10	16
Prepayments	3	2
Total receivables and prepayments	722	735
<i>Current</i>	<i>604</i>	<i>698</i>
<i>Non - current</i>	<i>118</i>	<i>37</i>

Accounting policy – recognition and measurement

Receivables

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

Notes to the financial statements

for the year ended 31 December 2016

Section 2: Investments, intangibles and working capital**2.4 Payables**

	2016 \$m	2015 \$m
Payables		
Investment related payables	30	106
Life insurance and investment contracts in process of settlement	251	290
Other payables		
- related entities	445	414
- other entities	286	378
Reinsurance payables	64	-
Total payables	1,076	1,188
<i>Current</i>	<i>617</i>	<i>1,099</i>
<i>Non - current</i>	<i>459</i>	<i>89</i>

Accounting policy – recognition and measurement**Payables**

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

Section 2: Investments, intangibles and working capital

2.5 Fair value information

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

2016	Carrying amount \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	8,530	8,276	-	254	8,530
Debt securities	8,864	1	8,844	19	8,864
Investments in unlisted managed investment schemes	69,474	-	69,467	7	69,474
Derivative financial assets	220	158	62	-	220
Other financial assets	5	-	-	5	5
Total financial assets measured at fair value	87,093	8,435	78,373	285	87,093
Financial liabilities measured at fair value					
Borrowings from related parties	392	-	392	-	392
Derivative financial liabilities	186	49	137	-	186
Collateral deposits held	27	-	27	-	27
Investment contract liabilities	66,328	-	2,238	64,090	66,328
Total financial liabilities measured at fair value	66,933	49	2,794	64,090	66,933
2015	Carrying amount \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	9,492	9,336	-	156	9,492
Debt securities	9,582	1	9,552	29	9,582
Investments in unlisted managed investment schemes	65,716	-	65,696	20	65,716
Derivative financial assets	272	122	150	-	272
Investment properties	147	-	-	147	147
Other financial assets	9	-	1	8	9
Total financial assets measured at fair value on a recurring basis	85,218	9,459	75,399	360	85,218
Financial liabilities measured at fair value					
Borrowings from related parties	446	-	446	-	446
Derivative financial liabilities	176	93	83	-	176
Collateral deposits held	27	-	27	-	27
Investment contract liabilities	64,594	-	2,346	62,248	64,594
Total financial liabilities measured at fair value on a recurring basis	65,243	93	2,902	62,248	65,243

Section 2: Investments, intangibles and working capital

2.5 Fair value information (continued)

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

<i>Listed equity securities and listed managed investment schemes</i>	The fair value of listed equity securities traded in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
<i>Debt securities</i>	The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
<i>Unlisted managed investment schemes</i>	The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.
<i>Derivative financial assets and liabilities</i>	The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices (current bid price or current offer price) at the reporting date. The fair value of financial instruments not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, discounted cash flow methods and comparison to quoted market prices or dealer quotes for similar instruments.

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

- Level 1: the fair value is valued by reference to quoted prices and active markets for identical assets
- Level 2: the fair value is estimated using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

There have been no significant transfers between Level 1 and Level 2 during the 2016 and 2015 financial years.

Level 3 fair values

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Equity securities and listed managed investment schemes	Discounted cash flow approach utilising cost of equity as the discount rate.	Discount rate. Terminal value growth rate. Cash flow forecasts.
Debt securities	Discounted cash flow approach.	Discount rate. Cash flow forecasts.
Investments in unlisted managed investment schemes	Published redemption prices.	Basis for the determination of the redemption price.
Investment contract liabilities	Valuation model based on published unit prices and the fair value of backing assets. Fixed retirement income policies - discounted cash flow.	Fair value of financial instruments. Cash flow forecasts. Credit risk.

Section 2: Investments, intangibles and working capital

2.5 Fair value information (continued)

Level 3 fair values (continued)

Sensitivity analysis

The sensitivity analysis below shows the effect of reasonable possible alternative assumptions, calculated by changing one or more of significant unobservable inputs for individual assets to reasonably possible alternative assumptions. This included adjusting the discount rate by 25bps - 100bps and adjustments to credit risk by 50bps.

	2016		2015	
	(+)	(-)	(+)	(-)
\$m				
Financial assets	6	(6)	6	(6)
Equity securities and listed managed investment schemes				
Financial liabilities				
Investment contract liabilities	2	(2)	5	(5)

Reconciliation of level 3 values

The following table shows movements in the fair values of financial instruments categorised as level 3 in the fair value hierarchy:

	Balance at the beginning of the year	FX gains or losses ¹	Total gains/ (losses) ¹	Purchases/ deposits	Sales/ (with- draws)	Net transfers in/(out) ²	Balance at the end of the year	Total gains and losses on assets and liabilities held at reporting date
2016	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets classified as level 3								
Equity securities and listed managed investment schemes	156	-	(35)	252	(119)	-	254	(35)
Debt Securities	29	-	(1)	-	(9)	-	19	(1)
Investments in unlisted managed investment schemes	20	-	(1)	-	(12)	-	7	(1)
Other financial assets	8	-	(1)	-	(2)	-	5	(1)
Total financial assets	213	-	(38)	252	(142)	-	285	(38)
Liabilities								
Investment contract liabilities	62,248	2	3,171	9,556	(10,886)	-	64,091	3,127
Total financial liabilities	62,248	2	3,171	9,556	(10,886)	-	64,091	3,127
2015	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets classified as level 3								
Equity securities and listed managed investment schemes	159	-	(2)	19	(20)	-	156	(2)
Debt Securities	38	-	(1)	-	(8)	-	29	(1)
Investments in unlisted managed investment schemes	27	-	(6)	-	(1)	-	20	3
Other financial assets	9	-	-	-	(1)	-	8	-
Total financial assets	233	-	(9)	19	(30)	-	213	0
Liabilities								
Investment contract liabilities	58,940	(1)	2,948	11,340	(10,979)	-	62,248	2,607
Total financial liabilities	58,940	(1)	2,948	11,340	(10,979)	-	62,248	2,607

¹Gains and losses are classified in Investment gains and losses or change in policyholder liabilities in the Statement of comprehensive income.

² AMP Life recognises transfers as at the end of the reporting period during which the transfer has occurred. Transfers are recognised when there are changes in the observability of the pricing of the relevant securities.

Financial asset valuation process

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

Section 3: Capital structure and financial risk management

- 3.1 Contributed equity
- 3.2 Interest-bearing liabilities
- 3.3 Financial risk management
- 3.4 Other derivative information
- 3.5 Capital management

3.1 Contributed equity

	2016 \$m	2015 \$m
Issued Capital		
24,459,252 (2015: 24,459,252) ordinary shares fully paid ¹	734	734
911,500 (2015: 911,500) capital notes ²	205	205
Total contributed equity at the end of the year	939	939
Issued capital		
Balance at the beginning of the year	734	911
Return of ordinary share capital	-	(190)
Issue of share capital	-	13
Balance at the end of the year	734	734
Capital notes		
Balance at the beginning of the year	205	-
Capital notes issued ²	-	205
Balance at the end of the year	205	205

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

2 AMP Life has issued capital notes to AMP Limited as follows:

- \$115m of capital notes (11,500 notes with a face value of \$10,000 per note) issued in March 2015. AMP Life has the right but not the obligation to redeem the notes on 27 March 2020 or, subject to certain conditions, at a later date.
- \$90m of capital notes (900,000 notes with a face value of \$100 per note) issued in November 2015. AMP Life has the right but not the obligation to redeem the notes on 22 December 2021 or, subject to certain conditions, at a later date.

The capital notes are non-cumulative, subordinated, perpetual and unsecured. Distributions on the capital notes are at the absolute discretion of AMP Life. In the event that APRA determines AMP Life to be non-viable, the Notes may be written off. In a winding up of AMP Life, the capital notes will rank ahead of ordinary shares, but behind all other creditors for payment.

Accounting policy – recognition and measurement

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.

Notes to the financial statements

for the year ended 31 December 2016

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

	2016			2015		
	Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
Interest-bearing liabilities						
Deposits	91	-	91	95	-	95
Subordinated Notes (first call date 18 December 2018, maturity 18 December 2023) ¹	-	215	215	-	215	215
Total interest-bearing liabilities	91	215	306	95	215	310

¹ Subordinated Notes may convert into AMP Life shares if a Non Viability Trigger Event occurs. The interest payable on the subordinated debt is BBSW3M +2.65%

Accounting policy – recognition and measurement**Interest-bearing liabilities**

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Finance costs

Finance costs include Interest on interest-bearing liabilities. Borrowing costs are recognised as expenses when incurred and are presented as a line item on the Statement of comprehensive income.

Notes to the financial statements

for the year ended 31 December 2016

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

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

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

- Market risk
- Liquidity and refinancing risk
- Credit concentration risk

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

(a) Market risk

Market risk is the risk that the fair value of assets and liabilities, or future cash flows of a financial instrument will fluctuate due to movements in the financial markets including interest rates, foreign exchange rates, equity prices, property prices, credit spreads, commodity prices, market volatilities and other financial market variables.

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

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

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis

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

- Shows the direct impact of a reasonably possible change in market rate and is not intended to illustrate a remote, worst case stress test scenario.
- Assumes that all underlying exposures and related hedges are included and the change in variable occurs at the reporting date.
- Does not include the impact of any mitigating management actions over the period to the subsequent reporting date.
- Includes in the impact on equity both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting.

		2016		2015	
		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
Change in variables					
Interest rate risk	- 100 bp	(37)	(37)	(29)	(29)
Impact of a 100 basis points(bp) change in Australian and international interest rates.	+ 100 bp	32	32	31	31
Currency risk	10% depreciation of AUD	4	36	4	36
Impact of a 10% movement of exchange rate against the Australian dollar on currency sensitive monetary assets and liabilities.	10% appreciation of AUD	(4)	(30)	(4)	(30)
10% increase in:					
Equity price risk	Australian equities	9	9	7	7
Impact of a 10% movement in Australian and international equities. Any potential impact on fees from AMP Life's investments linked business is not included.	International equities	4	4	6	6
10% decrease in:					
	Australian equities	(9)	(9)	(7)	(7)
	International equities	(4)	(4)	(6)	(6)

The categories of risk faced and methods used for deriving sensitivity information did not change from previous periods.

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(b) Liquidity and refinancing risk

Liquidity risk

The risk that AMP Life is not able to meet its obligations as they fall due because of an inability to liquidate assets or obtain adequate funding when required.

Refinancing risk

The risk that AMP Life is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.

Maturity analysis

Below is a summary of the maturity profiles of AMP Life's undiscounted financial liabilities and off-balance sheet items at the reporting date, based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

	Up to 1 Year or no term \$m	1 to 5 Years \$m	More than 5 Years \$m	Other ² \$m	Total \$m
2016					
Non-derivative financial liabilities					
Payables	617	-	-	459	1,076
Interest-bearing liabilities	91	215	-	-	306
Investment contract liabilities ¹	771	711	1,203	63,920	66,605
Total undiscounted financial liabilities²	1,479	926	1,203	64,379	67,987

2015

Non-derivative financial liabilities

Payables	1,099	-	-	89	1,188
Interest-bearing liabilities	95	215	-	-	310
Investment contract liabilities ¹	812	812	1,252	62,025	64,901
Total undiscounted financial liabilities²	2,006	1,027	1,252	62,114	66,399

1 If all 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.

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

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(c) Credit risk

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

Risk	Exposures	Management of exposures and use of derivatives
Credit risk Credit default risk is the risk of financial or reputational loss due to a counterparty failing to meet their contractual commitments in full and on time. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.	Wholesale credit risk on the invested fixed income portfolios in AMP Life statutory funds.	Managed by the AMP Capital Risk and Compliance Committee and reported to the fund managers, within specified credit criteria in the mandate approved by AMP Life Board. Responsibility of the individual investment teams. There is also a dedicated credit research team and a specific credit investment committee.

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

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

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

Collateral and master netting or similar agreements

AMP Life obtains collateral and utilises netting agreements to mitigate credit risk exposures from certain counterparties.

(i) Derivative financial assets and liabilities

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

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

An ISDA agreement does not automatically meet the criteria for offsetting in the Statement of financial position. This is because the AMP group, in most cases, does not have any currently legally enforceable right to offset recognised amounts.

If these netting arrangements were applied to the derivative portfolio, the derivative assets of \$220m would be reduced by \$11m to the net amount of \$209m and derivative liabilities of \$186m would be reduced by \$4m to the net amount of \$182m (2015: derivative assets of \$272m would be reduced by \$30m to the net amount of \$242m and derivative liabilities of \$176m would be reduced by \$30m to the net amount of \$146m).

(ii) Repurchase agreements

Included within debt securities are assets held to back the liability for collateral deposits held in respect of debt security repurchase arrangements entered into by the life entities' statutory funds and controlled entities of the life entities' statutory funds. As at 31 December 2016, if repurchase arrangements were netted, debt securities of \$8,864m would be reduced by \$27m to the net amount of \$8,837m and collateral deposits held of \$27m would be reduced by \$27m to the net amount of nil (2015: debt securities of \$9,582m would be reduced by \$27m to the net amount of \$9,555m and collateral deposits held of \$27m would be reduced by \$27m to the net amount of nil).

Section 3: Capital structure and financial risk management

3.4 Other derivative information

(a) Derivatives which are hedge accounted

Derivative instruments accounted for as cash flow hedges

AMP Life is exposed to variability in future cash flows on interest-bearing liabilities which can be at fixed and variable interest rates. AMP Life uses interest rate swaps designated as a cash flow hedge to manage these risks.

Accounting policy – recognition and measurement

Derivative financial instruments

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

Cash flow hedges

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

Notes to the financial statements

for the year ended 31 December 2016

Section 3: Capital structure and financial risk management

3.5 Capital management

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

AMP Life and its subsidiaries aim to optimise the mix of capital resources in order to minimise the cost of capital and maximise shareholder value.

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

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

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

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

At all times during the current and prior financial year, AMP Life and its regulated subsidiaries complied with the applicable externally imposed capital requirements.

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts

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

4.1 Accounting for life insurance contracts and investment contracts

The two major contract classifications are investment contracts and life insurance contracts.

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

Investment contracts

The investment contracts of AMP Life relate to wealth management products such as savings, investment-linked and retirement income policies. The nature of this business is that AMP Life receive deposits from policyholders and those funds are invested on behalf of the policyholders. Fees and other charges are passed to the shareholder and reported as revenue.

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

The fair value of the fixed retirement income payments is calculated as their net present value using a fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

Life insurance contracts

AMP Life issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies known as *discretionary participating contracts* that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of AMP Life. Such contracts are defined as *life insurance contracts* and accounted for using *Margin on Services (MoS)*.

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

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

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

Allocation of operating profit and unvested policyholder benefits

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

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

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

Bonus distributions to participating policyholders do not alter the amount of profit attributable to shareholders. There are merely changes the nature of the liability from unvested to vested.

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts

4.1 Accounting for life insurance contracts and investment contracts (continued)

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

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

Allocation of expenses within the statutory funds

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

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

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

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

Reinsurance

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

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

The present value of AMP Life's net contractual rights and obligations under reinsurance contracts is presented as a reinsurance asset or a reinsurance liability.

Changes in the reinsurance asset and the reinsurance liability during the period are recognised as Changes in policyholder liabilities.

On-going commission from reinsurers is recognised as revenue at the time the commission is received or receivable.

Critical accounting judgments and estimates

Life insurance contract liabilities

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

Investment contract liabilities

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

Notes to the financial statements

for the year ended 31 December 2016

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

	2016 \$m	2015 \$m
(a) Analysis of life insurance contract related revenue - net of reinsurance		
Life insurance contract premiums received and receivable	1,597	1,643
Less: component recognised as a change in life insurance contract liabilities	(331)	(369)
Life insurance contract premium revenue ¹	1,266	1,274
Commission received from reinsurers	550	-
Life insurance contract related revenue	1,816	1,274
Life insurance contract premiums ceded to reinsurers	(122)	(60)
Life insurance contract related revenue - net of reinsurance	1,694	1,214
(b) Analysis of life insurance contract claims expenses - net of reinsurance		
Life insurance contract claims expense	(1,248)	(1,226)
Life insurance claims recovered from reinsurers	59	43
Life insurance contract claims expenses - net of reinsurance	(1,189)	(1,183)
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(11)	(18)
- Other expenses	(61)	(77)
Life insurance contract maintenance expenses		
- Commission	(97)	(97)
- Other expenses	(274)	(276)
Investment management expenses	(39)	(42)

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

Notes to the financial statements

for the year ended 31 December 2016

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

	2016 \$m	2015 \$m
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
<i>Best estimate liability</i>		
- value of future life insurance contract benefits	10,643	12,649
- value of future expenses	2,694	3,141
- value of future premiums	(8,181)	(11,888)
<i>Value of future profits</i>		
- life insurance contract holder bonuses	2,479	2,444
- shareholders' profit margins	1,968	2,473
Total life insurance contract liabilities determined using the projection method	9,603	8,819
Life insurance contract liabilities determined using the accumulation method		
<i>Best estimate liability</i>		
- Value of future life insurance contract benefits	6,940	7,072
- Value of future acquisition expenses	(3)	(3)
Total life insurance contract liabilities determined using the accumulation method	6,937	7,069
Value of declared bonus	296	292
Unvested policyholder benefits liabilities ¹	1,731	1,722
Total life insurance contract liabilities net of reinsurance	18,567	17,902
Reinsurance liability - ceded life insurance contracts ²	(530)	-
Reinsurance asset- ceded life insurance contracts	94	77
Total life insurance contract liabilities gross of reinsurance	18,131	17,979
<p>1 For participating business in the statutory funds, part of the assets in excess of the life insurance contract and other liabilities calculated under MoS are attributed to policyholders. Under the Life Act, this is referred to as policyholder retained profits. For the purpose of reporting under accounting standards, this amount is referred to as unvested policyholder benefits liabilities and is included within life insurance contract liabilities even though it is yet to be vested as specific policyholder entitlements.</p> <p>2 Reinsurance liability - ceded life insurance contracts reflects the present value of the net obligation to transfer cashflows under the new 50% quota share reinsurance arrangement, effective from 1 November 2016, in return for the upfront commission received.</p>		
	2016 \$m	2015 \$m
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	17,979	18,282
Change in life insurance contract liabilities recognised in the Income statement	1,018	216
Premiums recognised as an increase in life insurance contract liabilities	331	369
Claims recognised as a decrease in life insurance contract liabilities	(736)	(857)
Change in reinsurance asset - ceded life insurance contracts	17	(3)
Change in reinsurance liability - ceded life insurance contracts	(530)	-
Foreign exchange adjustment	52	(28)
Total life insurance contract liabilities at the end of the year	18,131	17,979

Section 4: Life insurance and investment contracts

4.3 Life insurance contracts - assumptions and valuation methodology

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

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

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment account	Modified accumulation	n/a
Retail risk (lump sum)	Projection	Expected premiums
Retail risk (income protection)	Projection	Expected premiums
Group risk (lump sum)	Accumulation	n/a
Group risk (income benefits)	Accumulation	n/a
Participating allocated annuities	Modified accumulation	n/a
Life annuities	Projection	Annuity payments

(a) Risk-free discount rates

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

Business type	Basis ¹	31 December 2016		31 December 2015	
		Australia %	New Zealand %	Australia %	New Zealand %
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	1.7 - 4.1	1.9 - 4.8	2.0 - 3.7	2.7 - 4.5
Retail risk and group risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	2.1 - 4.4	2.2 - 5.1	2.5 - 4.2	3.1 - 5.0
Life annuities	Non-CPI	2.2 - 4.5	2.3 - 5.2	2.6 - 4.3	3.3 - 5.1
	CPI	0.7 - 1.6	.9 - 3.4	0.8 - 1.8	2.0 - 3.5

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

(b) Future maintenance and investment expenses

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

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

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.3 Life insurance contracts - assumptions and valuation methodology (continued)***(c) Inflation and indexation*

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

The expense inflation assumptions have been set based on the inflation rates, recent expense performance, AMP Life's current plans and the terms of the relevant service company agreement, as appropriate.

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

	Australia		New Zealand	
	%		%	
31 December 2016	2.0 CPI	3.0 Expense	1.5 CPI	2.0 Expense
31 December 2015	2.2 CPI	3.0 Expense	2.5 CPI	3.0 Expense

(d) Bases of taxation

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

(e) Voluntary discontinuance

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

The assumptions for future rates of discontinuance for the major classes of life insurance contracts have been reviewed and strengthened for some business lines from those assumed at 31 December 2015, as shown in the following table.

Business type	31 December 2016		31 December 2015	
	Australia	New Zealand	Australia	New Zealand
	%	%	%	%
Conventional	1.7 - 4.1	1.1 - 1.6	1.7 - 4.1	1.1 - 1.7
Retail risk (lump sum)	14.2 - 18.3	12.0	12.1 - 16.4	12.0 - 13.0
Retail risk (income benefit)	11.2 - 19.1	11.4	9.1 - 19.1	11.4
Flexible Lifetime Super (FLS) risk	13.3 - 16.5	n/a	10.2 - 18.9	n/a
Investment account	n/a	n/a	n/a	n/a

(f) Surrender values

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

Notes to the financial statements

for the year ended 31 December 2016

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

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

Rates of mortality assumed at 31 December 2016 are as follows:

- Retail risk mortality rates for AMP Life Australia have been reviewed and strengthened for some business lines from those assumed at 31 December 2015, as indicated in the tables below. Retail risk mortality rates for AMP Life New Zealand are unchanged from those assumed at 31 December 2015. The rates are based on the Industry standard IA04-08 Death Without Riders.
- Conventional business mortality rates are unchanged from those assumed at 31 December 2015.
- Annuitant mortality rates are unchanged from those assumed at 31 December 2015.

For Australian income protection business, the assumptions have been updated and based on the recently released ADI07-11 standard table modified for AMP Life with overall product specific adjustment factors. For New Zealand income protection business, the assumptions are unchanged from those assumed at 31 December 2015. These assumptions are based on the IAD89-93 standard table.

For Australian TPD and Trauma business, retail risk products assumptions have been strengthened for some business lines from those assumed at 31 December 2015. For New Zealand TPD and Trauma business, the retail risk products assumptions are unchanged from those assumed at 31 December 2015. These assumptions are based on the latest industry table IA04-08.

The assumptions are summarised in the following table.

	Conventional - % of IA95-97	
Conventional	Male	Female
31 December 2016		
Australia	67.5	67.5
New Zealand	73.0	73.0
31 December 2015		
Australia	67.5	67.5
New Zealand	73.0	73.0
	Retail Lump Sum - % of table	
Risk Products	Male	Female
31 December 2016		
Australia ¹	94 - 148	94 - 148
New Zealand	100	82
31 December 2015		
Australia ¹	86 - 118	86 - 118
New Zealand	100	82
¹ Base IA04-08 Death Without Riders table modified based on aggregated experience but with overall product specific adjustment factors.		
	Male - % of IML00*	Female - % of IFL00*
Annuities		
31 December 2016		
Australia and New Zealand ¹	95.0	80.0
31 December 2015		
Australia and New Zealand ¹	95.0	80.0

¹ Annuities tables modified for future mortality improvements.

Notes to the financial statements

for the year ended 31 December 2016

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

Typical morbidity assumptions, in aggregate, are as follows:

	Incidence rates 2016 - % of ADI 07-11 2015 - % of IAD 89-93	Termination rates (ultimate) 2016 - % of ADI 07-11 2015 - % of IAD 89-93
Income protection		
31 December 2016		
Australia	45 - 143	86 - 99
31 December 2015		
Australia	49 - 138	44 - 75
	Incidence rates % of IAD 89-93	Termination rates (ultimate) % of IAD 89-93
Income protection		
31 December 2016		
New Zealand	45 - 67	57 - 78
31 December 2015		
New Zealand	45 - 67	57 - 78
	Male % of IA04-08	Female % of IA04-08
Retail Lump Sum		
31 December 2016		
Australia TPD ¹	150 - 173	170 - 196
Australia Trauma ²	102 - 168	102 - 168
New Zealand TPD ¹	150	190
New Zealand Trauma ²	114	114
31 December 2015		
Australia TPD ¹	140 - 155	177 - 196
Australia Trauma ²	105 - 110	105 - 121
New Zealand TPD ¹	150	190
New Zealand Trauma ²	114	114

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

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

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995-1997. The table has been modified to allow for future mortality improvement.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Institute and Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999-2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IML00* and IFL00* are these published tables amended for some specific AMP Life experience.
IA04-08 DTH	This was published by the Institute of Actuaries of Australia under the name <i>A graduation of the 2004-2008 Lump Sum Investigation Data</i> . The table has been modified based on aggregated experience with overall product specific adjustment factors
IA04-08 TPD	This is the TPD graduation published in the same paper as above.
IA04-08 Trauma	This is the Trauma graduation published in the same paper as above.
IAD 89-93	A disability table developed by the Institute of Actuaries of Australia based on Australian disability income experience for the period 1989-1993. The table has been adjusted to take account of AMP Life's own experience.
ADI 07-11	A disability table developed by KPMG at the request of the Financial Services Council (FSC) based on Australian disability income experience for the period 2007-2011. This table has been modified for AMP Life with overall product specific adjustment factors.

Section 4: Life insurance and investment contracts

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

(h) Other participating business assumptions

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

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

	10 year government bond yields	Risk premiums				
		Local equities	International equities	Property & Infrastructure	Fixed interest	Cash
	%	%	%	%	%	%
31 December 2016						
Australia	2.8	4.5	3.5	2.5	0.6	(0.5)
New Zealand	3.4	4.5	3.5	2.5	0.6	(0.5)
31 December 2015						
Australia	2.9	4.5	3.5	2.5	0.7	(0.5)
New Zealand	3.6	4.5	3.5	2.5	0.7	(0.5)

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

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

Average asset mix ¹		Equities %	Property & Infrastructure %	Fixed Interest %	Cash %
31 December 2016					
Australia	AMPLife	26	13	39	22
New Zealand	AMPLife	34	17	41	8
31 December 2015					
Australia	AMPLife	26	13	39	22
New Zealand	AMPLife	34	17	42	7

¹ The asset mix in the table above includes both conventional and investment account business.

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2016

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

Typical supportable bonus rates on major product lines are as follows (31 December 2015 in parentheses).

Reversionary bonus	Bonus on sum insured %	Bonus on existing bonuses %
Australia	0.8 - 1.0 (0.9 - 1.0)	1.0 - 1.5 (1.0 - 1.6)
New Zealand	0.7 - 1.0 (0.8 - 1.2)	0.7 - 1.0 (0.8 - 1.2)

Terminal bonus

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

Crediting rates (investment account)

	%
Australia	1.3 - 3.7 (0.3 - 5.5)
New Zealand	2.0 - 3.3 (3.1 - 7.1)

(i) Impact of changes in assumptions

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

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

The impact on future profit margins of actual changes in assumptions from 31 December 2015 to 31 December 2016 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below.

Assumption change	Change in future profit margins \$m	Change in life insurance contract liabilities ² \$m	Change in shareholders' profit and equity ³ \$m
Non-market related changes to discount rates	(8)	-	-
Mortality and morbidity	(247)	212	(149)
Discontinuance rates	(85)	23	(16)
Maintenance expenses	138	88	(62)
Other assumptions ¹	(209)	(48)	33

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk

(a) Life Insurance risk

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

The products carrying insurance risk are designed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave AMP Life open to claims from causes that were not anticipated. The variability inherent in insurance risk, including concentration risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are generally underwritten individually on their merits. Individual policies which are transferred from a group scheme are underwritten on the merits of the employee group as a whole.

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

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

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses
- reduce overall exposure to risk
- reduce the amount of capital required to support the business.

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

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.4 Life insurance contracts - risk (continued)****(b) Key terms and conditions of life insurance contracts**

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

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

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.4 Life insurance contracts - risk (continued)****(c) Insurance risk sensitivity analysis – life Insurance contracts**

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

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

Variable	Change in variable	Change in life insurance contract liabilities		Change in shareholder profit after income tax and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
Mortality	10% increase in mortality rates	(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	80	43	(56)	(30)
Morbidity - disability income	10% decrease in recovery rates	123	73	(86)	(51)
Discontinuance rates	10% increase in discontinuance rates	19	14	(14)	(10)
Maintenance expenses	10% increase in maintenance expenses	6	6	(4)	(4)

(d) Liquidity risk and future net cash outflows

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

	Up to 1 year \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
2016	1,219	2,913	7,002	11,134
2015	833	2,313	6,454	9,600

Notes to the financial statements

for the year ended 31 December 2016

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

	2016 \$m	2015 \$m
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	437	411
- Profits (losses) arising from difference between actual and assumed experience	(51)	30
- Profits (losses) arising from changes in assumptions	(39)	23
- Capitalised (losses) reversals	(194)	-
Profit related to life insurance and investment contract liabilities	153	464
Attributable to:		
- Life insurance contracts	(25)	281
- Investment contracts	178	183
Profit related to life insurance and investment contract liabilities	153	464
Investment earnings on assets in excess of life insurance and investment contract liabilities		
	115	78

(b) Restrictions on assets in statutory funds

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

AMP Life has three statutory funds as set out below:

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

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

Further details about solvency and capital adequacy are provided in note 4.5(d).

Notes to the financial statements

for the year ended 31 December 2016

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

	2016 \$m	2015 \$m
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	12,167	12,415
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	881	926
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	85	90

(d) Capital requirements

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These reserving requirements are specified by the APRA prudential capital standards. The standards are intended to take account of the full range of risks to which a regulated institution is exposed and introduces the prescribed capital amount (PCA) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations.

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

The excess of the company's capital base over the PCA as at 31 December 2016 was \$1,551m (2015: \$1,229m)

The Appointed Actuary has confirmed that the capital base of each life statutory fund and shareholders' fund have exceeded PCA at all times during 2016 and 2015.

Notes to the financial statements

for the year ended 31 December 2016

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

		No 1 Statutory Fund	No 2 Statutory Fund	No 3 Statutory Fund	Share- holder's Fund	Total
2016		\$m	\$m	\$m	\$m	\$m
Capital Base						
Net assets as per Life Insurance Act	A	1,490	165	6	1,354	3,015
- Common equity Tier 1 Capital		1,490	165	6	1,149	2,810
- Additional Tier 1 Capital		n/a	n/a	n/a	205	205
Total regulatory adjustments to net assets	B	(304)	2	-	(552)	(854)
Tier 1 Capital		(304)	2	-	(552)	(854)
Capital		n/a	n/a	n/a	-	-
Tier 2 Capital	C	170	45	-	-	215
Total regulatory adjustments to Tier 2 Capital	D	-	-	-	-	-
Total capital base	E(A+B+C+D)	1,356	212	6	802	2,376
Prescribed capital						
Insurance risk charge		96	-	-	-	96
Asset risk charge		507	7	-	13	527
Asset concentration risk charge		-	-	-	-	-
Operational risk charge		84	158	2	-	244
Less aggregation benefit		(69)	-	-	-	(69)
Combined stress scenario adjustment		22	-	-	5	27
Total Prescribed capital Amount (PCA)	F	640	165	2	18	825
Capital adequacy multiple	E/F	212%	129%	416%	4456%	288%
		No 1 Statutory Fund	No 2 Statutory Fund	No 3 Statutory Fund	Share- holder's Fund	Total
2015		\$m	\$m	\$m	\$m	\$m
Capital Base						
Net assets as per Life Insurance Act	A	2,140	202	6	948	3,296
- Common equity Tier 1 Capital		2,140	202	6	743	3,091
- Additional Tier 1 Capital		-	-	-	205	205
Total regulatory adjustments to net assets	B	(866)	-	-	(557)	(1,423)
- Total regulatory adjustments to Common equity		(866)	-	-	(557)	(1,423)
Tier 1 Capital		(866)	-	-	(557)	(1,423)
- Total regulatory adjustments to Additional Tier 1		-	-	-	-	-
Capital		-	-	-	-	-
Tier 2 Capital	C	170	45	-	-	215
Total regulatory adjustments to Tier 2 Capital	D	-	-	-	-	-
Total capital base	E(A+B+C+D)	1,444	247	6	391	2,088
Prescribed capital						
Insurance risk charge		21	-	-	-	21
Asset risk charge		467	50	-	7	524
Asset concentration risk charge		-	-	-	-	-
Operational risk charge		85	153	2	-	240
Less aggregation benefit		(17)	-	-	-	(17)
Combined stress scenario adjustment		91	-	-	-	91
Total Prescribed capital Amount (PCA)	F	647	203	2	7	859
Capital adequacy multiple	E/F	223%	122%	424%	5421%	243%

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance contracts and investment contracts (continued)****(e) Actuarial information**

Mr Anton Kapel, the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the financial report and in the tables in this note and notes 4.2- 4.4.

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

(f) Disaggregated information*(i) Statement of comprehensive income by statutory fund and shareholders' fund*

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Total \$m
2016					
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,694	-	-	-	1,694
Fee revenue	18	1,000	8	46	1,072
Investment gains and (losses)	1,250	4,180	45	7	5,482
Share of profit of associates accounted for using the equity method	8	-	-	-	8
Life insurance contract claims expenses - net of reinsurance	(1,189)	-	-	-	(1,189)
Operating expenses	(525)	(767)	(4)	-	(1,296)
Finance costs	(15)	(3)	-	-	(18)
Change in policyholder liabilities					
- Life insurance contracts	(1,018)	-	-	-	(1,018)
- Investment contracts	(62)	(4,131)	(33)	-	(4,226)
Profit before income tax	161	279	16	53	509
Income tax (expense) / credit	(121)	(57)	(9)	(14)	(201)
Net profit for the year	40	222	7	39	308
	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Total \$m
2015					
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,214	-	-	-	1,214
Fee revenue	24	1,040	10	46	1,120
Other revenue	-	-	-	13	13
Investment gains and (losses)	1,359	3,842	36	4	5,241
Share of profit of associates accounted for using the equity method	6	-	-	-	6
Life insurance contract claims expenses - net of reinsurance	(1,183)	-	-	-	(1,183)
Operating expenses	(552)	(795)	(7)	(15)	(1,369)
Finance costs	(20)	(3)	-	-	(23)
Change in policyholder liabilities					
- Life insurance contracts	(216)	-	-	-	(216)
- Investment contracts	(74)	(3,954)	(29)	-	(4,057)
Profit before income tax	558	130	10	48	746
Income tax (expense) / credit	(211)	61	(5)	(16)	(171)
Net profit for the year	347	191	5	32	575

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance contracts and investment contracts (continued)****(f) Disaggregated Information (continued)***(ii) Statement of financial position by statutory fund and shareholders' fund*

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Elimina- tions \$m	Total \$m
2016						
Assets						
Investments in financial assets	21,038	64,852	662	609	-	87,161
Other assets	3,834	236	1	751	(312)	4,510
Total assets of policyholders and the shareholder	24,872	65,088	663	1,360	(312)	91,671
Liabilities						
Life insurance contract liabilities ¹	18,131	-	-	-	-	18,131
Investment contract liabilities ¹	2,509	63,203	616	-	-	66,328
Other liabilities	2,743	1,720	40	6	(312)	4,197
Total liabilities of policyholders and the shareholder	23,383	64,923	656	6	(312)	88,656
Net assets	1,489	165	7	1,354	-	3,015
Equity						
Contributed equity	158	173	-	608	-	939
Reserves	99	-	-	(13)	-	86
Retained earnings	1,232	(8)	7	759	-	1,990
Total equity	1,489	165	7	1,354	-	3,015
2015						
Assets						
Investments in financial assets	21,380	62,934	665	154	-	85,133
Investment property	147	-	-	-	-	147
Other assets	3,859	428	7	808	(511)	4,591
Total assets of policyholders and the shareholder	25,386	63,362	672	962	(511)	89,871
Liabilities						
Life insurance contract liabilities ¹	17,979	-	-	-	-	17,979
Investment contract liabilities ¹	2,672	61,307	615	-	-	64,594
Other liabilities	2,595	1,853	51	14	(511)	4,002
Total liabilities of policyholders and the shareholder	23,246	63,160	666	14	(511)	86,575
Net assets	2,140	202	6	948	-	3,296
Equity						
Contributed equity	158	173	-	608	-	939
Reserves	92	-	-	(13)	-	79
Retained earnings	1,890	29	6	353	-	2,278
Total equity	2,140	202	6	948	-	3,296

¹ Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately \$12,353m (2015: \$11,825m) of policy liabilities may be settled within 12 months of the reporting date.

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance contracts and investment contracts (continued)****(f) Disaggregated Information (continued)***(iii) Retained earnings by statutory fund and shareholders' fund*

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Total \$m
2016					
Opening retained earnings	1,890	29	6	353	2,278
Net profit	40	222	7	39	308
Transfers between statutory and shareholder's funds	(698)	(259)	(6)	964	-
Dividends and distributions paid	-	-	-	(596)	(596)
Closing retained earnings	1,232	(8)	7	759	1,990

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Total \$m
2015					
Opening retained earnings	1,877	27	7	340	2,251
Net profit	347	191	5	32	575
Transfers between statutory and shareholder's funds	(334)	(189)	(6)	529	-
Dividends paid	-	-	-	(548)	(548)
Closing retained earnings	1,890	29	6	353	2,278

(iv) Contributed equity by statutory fund and shareholders' fund

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Total \$m
2016					
Opening contributed equity	158	173	-	608	939
Closing contributed equity	158	173	-	608	939

	No 1 Statutory Fund \$m	No 2 Statutory Fund \$m	No 3 Statutory Fund \$m	Share- holder's Fund \$m	Total \$m
2015					
Opening contributed equity	158	173	-	580	911
Return of ordinary share capital	-	-	-	(190)	(190)
Issue of share capital	-	-	-	13	13
Capital Notes issued	-	-	-	205	205
Closing contributed equity	158	173	-	608	939

Notes to the financial statements

for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance contracts and investment contracts (continued)****(f) Disaggregated information (continued)***(v) Statement of comprehensive income by non-investment linked and investment linked*

	Non- Investment Linked ¹	Investment Linked	Total Statutory Funds	Share- holder's Fund	Total
	\$m	\$m	\$m	\$m	\$m
2016					
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,694	-	1,694	-	1,694
Fee revenue	18	1,008	1,026	46	1,072
Investment gains and (losses)	1,250	4,225	5,475	7	5,482
Share of profit of associates accounted for using the equity method	8	-	8	-	8
Life insurance contract claims expenses - net of reinsurance	(1,189)	-	(1,189)	-	(1,189)
Operating expenses	(525)	(771)	(1,296)	-	(1,296)
Finance costs	(15)	(3)	(18)	-	(18)
Change in policyholder liabilities					
- Life insurance contracts	(1,018)	-	(1,018)	-	(1,018)
- Investment contracts	(62)	(4,164)	(4,226)	-	(4,226)
Profit before income tax	161	295	456	53	509
Income tax (expense) / credit	(121)	(66)	(187)	(14)	(201)
Net profit for the year	40	229	269	39	308

	Non- Investment Linked ¹	Investment Linked	Total Statutory Funds	Share- holder's Fund	Total
	\$m	\$m	\$m	\$m	\$m
2015					
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,214	-	1,214	-	1,214
Fee revenue	24	1,050	1,074	46	1,120
Other revenue	-	-	-	13	13
Investment gains and (losses)	1,359	3,878	5,237	4	5,241
Share of profit of associates accounted for using the equity method	6	-	6	-	6
Life insurance contract claims expenses - net of reinsurance	(1,183)	-	(1,183)	-	(1,183)
Operating expenses	(552)	(802)	(1,354)	(15)	(1,369)
Finance costs	(20)	(3)	(23)	-	(23)
Change in policyholder liabilities					
- Life insurance contracts	(216)	-	(216)	-	(216)
- Investment contracts	(74)	(3,983)	(4,057)	-	(4,057)
Profit before income tax	558	140	698	48	746
Income tax (expense) / credit	(211)	56	(155)	(16)	(171)
Net profit for the year	347	196	543	32	575

¹The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through consolidation of the company's New Zealand Branch.

Notes to the financial statements

for the year ended 31 December 2016

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

(f) Disaggregated information (continued)

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

	Non-Investment Linked ¹	Investment Linked	Total Statutory Funds	Share- holder's Fund	Elim	Total
	\$m	\$m	\$m	\$m	\$m	\$m
2016						
Assets						
Investments in financial assets	21,038	65,514	86,552	609	-	87,161
Other assets	3,834	237	4,071	751	(312)	4,510
Total assets of policyholders and the shareholder	24,872	65,751	90,623	1,360	(312)	91,671
Liabilities						
Life insurance contract liabilities	18,131	-	18,131	-	-	18,131
Investment contract liabilities	2,509	63,819	66,328	-	-	66,328
Other liabilities	2,743	1,760	4,503	6	(312)	4,197
Total liabilities of policyholders and the shareholder	23,383	65,579	88,962	6	(312)	88,656
Net assets	1,489	172	1,661	1,354	-	3,015
Equity						
Contributed equity	158	173	331	608	-	939
Reserves	99	-	99	(13)	-	86
Retained earnings	1,232	(1)	1,231	759	-	1,990
Total equity	1,489	172	1,661	1,354	-	3,015
	Non-Investment Linked ¹	Investment Linked	Total Statutory Funds	Share- holder's Fund	Elim	Total
	\$m	\$m	\$m	\$m	\$m	\$m
2015						
Assets						
Investments in financial assets	21,380	63,599	84,979	154	-	85,133
Investment property	147	-	147	-	-	147
Other assets	3,859	435	4,294	808	(511)	4,591
Total assets of policyholders and the shareholder	25,386	64,034	89,420	962	(511)	89,871
Liabilities						
Life insurance contract liabilities	17,979	-	17,979	-	-	17,979
Investment contract liabilities	2,672	61,922	64,594	-	-	64,594
Other liabilities	2,595	1,904	4,499	14	(511)	4,002
Total liabilities of policyholders and the shareholder	23,246	63,826	87,072	14	(511)	86,575
Net assets	2,140	208	2,348	948	-	3,296
Equity						
Contributed equity	158	173	331	608	-	939
Reserves	92	-	92	(13)	-	79
Retained earnings	1,890	35	1,925	353	-	2,278
Total equity	2,140	208	2,348	948	-	3,296

¹The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through consolidation of the company's New Zealand Branch.

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for the year ended 31 December 2016

Section 4: Life insurance and investment contracts**4.5 Other disclosure - life insurance contracts and investment contracts (continued)****(f) Disaggregated Information (continued)***(vii) Retained earnings by non-investment linked and investment linked*

	Non- Investment Linked ¹	Investment Linked	Total Statutory Funds	Shareholder's Fund	Total
	\$m	\$m	\$m	\$m	\$m
2016					
Opening retained earnings	1,890	35	1,925	353	2,278
Net profit	40	229	269	39	308
Transfers between statutory and shareholder's funds	(698)	(266)	(964)	964	-
Dividends and distributions paid	-	-	-	(596)	(596)
Closing retained earnings	1,232	(2)	1,230	759	1,990

	Non- Investment Linked ¹	Investment Linked	Total Statutory Funds	Shareholder's Fund	Total
	\$m	\$m	\$m	\$m	\$m
2015					
Opening retained earnings	1,877	34	1,911	340	2,251
Net profit	347	196	543	32	575
Transfers between statutory and shareholder's funds	(334)	(195)	(529)	529	-
Dividends paid	-	-	-	(548)	(548)
Closing retained earnings	1,890	35	1,925	353	2,278

¹The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through consolidation of the company's New Zealand Branch.

(viii) Contributed equity by non-investment linked and investment linked

	Non- Investment Linked ¹	Investment Linked	Total Statutory Funds	Shareholder's Fund	Total
	\$m	\$m	\$m	\$m	\$m
2016					
Opening contributed equity	158	173	331	608	939
Closing contributed equity	158	173	331	608	939

	Non- Investment Linked ¹	Investment Linked	Total Statutory Funds	Shareholder's Fund	Total
	\$m	\$m	\$m	\$m	\$m
2015					
Opening contributed equity	158	173	331	580	911
Return of ordinary share capital	-	-	-	(190)	(190)
Issue of share capital	-	-	-	13	13
Capital Notes issued	-	-	-	205	205
Closing contributed equity	158	173	331	608	939

¹The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within the No.1 statutory fund through consolidation of the company's New Zealand Branch.

Section 5: Related party disclosures

- 5.1 Controlled entities
- 5.2 Acquisitions and disposals of controlled entities
- 5.3 Investments in associates
- 5.4 Parent entities
- 5.5 Key management personnel
- 5.6 Transactions with related parties

5.1 Controlled entities

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

Name of entity	Country of incorporation	Share type	Ownership interest	
			2016 (%)	2015 (%)
AMP Services (NZ) Limited	New Zealand	Ord	100	100
AMP Superannuation Limited	Australia	Ord	100	100
Australian Securities Administration Limited	Australia	Ord	100	100
INSSA Pty Limited	Australia	Ord	100	100
Priority One Financial Services Limited	Australia	Ord	100	100

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

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

Critical accounting estimates and judgements:

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

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

5.2 Acquisitions and disposals of controlled entities

Acquisition of controlled entities of AMP life insurance entities' statutory funds

In the course of normal operating investment activities, 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.

There were no significant acquisitions or disposals of controlled entities of AMP life insurance entities' statutory funds in 2016 or 2015.

Section 5: Related party disclosures

5.3 Investments in associates

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

	Principal activities	Place of business	Ownership interest		Carrying amount	
			2016	2015	2016	2015
			%	%	\$m	\$m
China Life Pension Company	Pension company	China	19.99	19.99	283	282
Total investments in associates accounted for using the equity method					283	282

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

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

Accounting Policy – recognition and measurement

Investments in associates

Investments in associates accounted for using the equity method

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

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

Investments in associates measured at fair value through profit or loss

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

5.4 Parent entities

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

Section 5: Related party disclosures

5.5 Key management personnel

(a) Compensation to key management personnel

	2016	2015
	\$	\$
Short term benefits	4,715,214	5,718,022
Post-employment benefits	245,256	192,929
Share based payments	3,674,929	2,837,693
Other long-term benefits	75,138	141,334
Termination Benefits	291,486	-
Total	9,002,023	8,889,978

1 For key management personnel of the company who are also key management personnel of AMP Limited, the amounts include compensation from AMP Limited.

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

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

Information about such transactions does not have the potential to 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.

Accounting policy – recognition and measurement

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

Post-employment benefits - Defined contribution funds - The contributions paid and payable by AMP group to defined contributions funds are recognised in the 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.

Other long-term benefits - Other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, discount rates are determined with reference to market yields at the end of the reporting period on high quality corporate bonds.

Section 5: Related party disclosures

5.6 Transactions with related parties

The company has transactions with related parties including controlled entities and associated entities.

Most of those related parties are various investment vehicles/funds and the activities with those parties are part of the normal day to day investment activities of the company.

Other related party transactions are in respect of administrative services, investment management services and financial planning services provided by fellow controlled entities in the AMP group. Balances with other related parties that are material are set out in the table below.

Transactions with related parties are made at arm's length on normal commercial terms.

		Service, management and other fees received from related parties \$'000	Service, management and other fees paid to related parties \$'000	Amounts owed by related parties \$'000	Amounts owed to related parties \$'000
Fellow subsidiaries of AMP Limited					
AMP Bank Limited	2016	56,605	-	2,509,833	-
	2015	66,882	-	2,600,439	-
AMP Capital Investors Limited	2016	-	210,912	-	21,828
	2015	-	221,708	-	29,276
AMP Financial Planning Pty Limited	2016	-	260,721	16,665	-
	2015	-	285,447	16,135	-
AMP Limited	2016	-	10,200	-	215,000
	2015	-	10,711	-	215,000
AMP Planner Register Company Pty Limited	2016	-	-	-	1,678
	2015	2,070	-	-	-
AMP Services Limited	2016	-	546,877	9,020	-
	2015	-	588,227	4,154	-
AMP Superannuation Limited	2016	-	6,186	-	-
	2015	-	6,454	-	-
AMP Services (NZ) Limited	2016	-	33,858	913	-
	2015	-	32,638	759	-
Charter Financial Planning Ltd	2016	-	7,845	-	-
	2015	-	6,809	-	-
Hillross Financial Service	2016	-	18,972	8,481	-
	2015	-	20,969	818	-
INSSA Pty Limited	2016	-	-	-	2,193
	2015	-	-	-	2,193
The National Mutual Life Association of Australasia Limited	2016	-	-	2,338	-
	2015	-	-	-	6,481

Section 6: Other disclosures

- 6.1 Notes to Statement of cash flows
- 6.2 Contingent liabilities
- 6.3 Auditors' remuneration
- 6.4 New accounting standards
- 6.5 Events occurring after reporting date

6.1 Notes to Statement of cash flows

(a) Reconciliation of cash flow from operation activities

	2016	2015
\$m	\$m	\$m
Net profit for the year	308	575
Depreciation of operating assets	10	8
Investment gains and losses	(1,434)	(914)
Dividend and distribution income reinvested	(2,847)	(3,197)
Purchase of Property Plant and Equipment	(11)	(20)
(Increase) decrease in receivables and other assets	564	(45)
Increase in net policy liabilities	1,886	2,849
Increase in income tax balances	(275)	(151)
(Decrease) increase in other payables	(101)	192
Cash flows from (used in) from operating activities	(1,900)	(703)

(b) Reconciliation of cash

	2016	2015
	\$m	\$m
Cash and cash equivalents	2,534	2,721
Short term bills and notes (included in Debt securities)	1,147	1,054
Cash and cash equivalents for the purposes of the Statement of cash flows	3,681	3,775

Accounting policy – recognition and measurement

Cash and cash equivalents

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

Section 6: Other disclosures

6.2 Contingent liabilities

From time to time AMP Life may incur obligations arising from litigation or various types of contracts entered into in the normal course of business, including guarantees issued by the parent for performance obligations to controlled entities in AMP Life. Where it is determined that the disclosure of information in relation to a contingent liability can be expected to seriously prejudice the position of AMP Life (or its insurers) in a dispute, accounting standards allow AMP Life not to disclose such information and it is AMP Life's policy that such information is not to be disclosed in this note.

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

6.3 Auditors' remuneration

	2016 \$'000	2015 \$'000
Audit services for AMP Life Limited		
Audit of subsidiary financial statements	150	-
Other audit services ¹	84	74
Total audit service fees²	234	74

1 Other audit services includes fees for compliance audits for AMP Life and entities controlled by AMP Life.

2 Other fee for services provided by the auditor including the full year audit and half year review are paid on the company's behalf by a related entity within the AMP Limited Group.

6.4 New accounting standards

a) New and amended accounting standards adopted by the Group

A number of new accounting standards and amendments have been adopted effective 1 January 2016. These have not had a material effect on the financial position or performance of AMP Life.

b) New Accounting Standards issued but not yet effective

A number of new accounting standards and amendments have been issued but are not yet effective, none of which have been early adopted by AMP Life in this financial report. These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of AMP Life, other than as set out below.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective for periods beginning on 1 January 2018. AASB 15 defines principles for recognising revenue and introduces new disclosure requirements. From AMP Life's perspective, AASB 15 will primarily apply to fee revenue as life insurance premium and related revenue will continue to fall outside the scope of AASB 15 and will be accounted for under other applicable standards.

Under AASB 15, revenue will be recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. AMP Life is currently undertaking an assessment of the potential impact of this standard, and is not considering early adopting AASB 15.

AASB 9 *Financial Instruments*

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

AMP Life is currently undertaking an assessment of the potential impact of this standard. The potential impact to AMP Life is unlikely to be material.

AMP Life is not considering early adopting AASB 9.

Section 6: Other disclosures

6.5 Events occurring after reporting date

Transfer of NMLA Australian and New Zealand life insurance business to AMP Life

On 1 January 2017, the Australian and New Zealand life insurance business of The National Mutual Life Association of Australasia Limited ("NMLA") was transferred to AMP Life Limited ("AMP Life"), both wholly owned controlled entities of the AMP Limited Group.

The transfer was completed using a scheme ("Scheme") under Part 9 of the Life Insurance Act 1995 in Australia and s44-53 of the Insurance (Prudential Supervision) Act 2010 in New Zealand. The Scheme was approved by regulators in Australia and New Zealand and confirmed by the Federal Court of Australia.

The transfer involved all of the Australian and New Zealand life policies and insurance liabilities of NMLA, as well as certain assets and liabilities related to that business. Following the transfer, NMLA policies are treated as if they had been issued and administered by AMP Life rather than NMLA.

Assets of \$13.4 billion and liabilities of \$12.0 billion were transferred at their carrying values in NMLA immediately prior to the transfer. Because NMLA and AMP Life have the same accounting policies for these assets and liabilities, there were no adjustments to the carrying values of the transferred assets and liabilities. NMLA and AMP Life have accounted for the transfer as equity transactions with their respective parents whereby the net assets decrease in NMLA and the net assets increase in AMP Life of \$1.4 billion have been treated as changes in equity and there was no impact on profit and loss from the transfer transaction.

On 3 February 2017, AMP Life declared a \$420m final dividend of \$17.17 per share and approved a capital return of \$500m to AMP Financial Services Holdings Limited.

Other

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

- The operations of the company in future years;
- The results of those operations in future years; or
- The state of affairs of the company in future financial years.

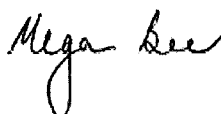
In accordance with a resolution of the directors of AMP Life Limited, the purposes of Section 295(4) of the *Corporations Act 2001*, the Directors declare that:

- (a) in the opinion of directors there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the opinion of directors the financial statements and notes for the financial year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including Section 296 (compliance with accounting standards) and Section 297 (true and fair view); and
- (c) the notes to the financial statements for the financial year ended 31 December 2016 include an explicit and unreserved statement of compliance with the International Financial Reporting Standards.



Trevor Matthews
Director

Sydney, 8 February 2017



Megan Beer
Director

Independent auditor's report to the members of AMP Life Limited

Opinion

We have audited the financial report of AMP Life Limited (the Company), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

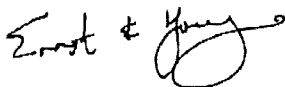
Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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



Ernst & Young



Kieren Cummings
Partner
Sydney
8 February 2017