

AMP Group Holdings Limited

ABN 88 079 804 676

**Directors' report and Financial report
for the half year ended
30 June 2017**

DIRECTORS' REPORT

For the half year ended 30 June 2017

Your directors present their report on the consolidated entity consisting of AMP Group Holdings Limited and the entities it controlled at the end of or during the half year ended 30 June 2017.

Directors' details

The directors of the Company during the half year ended 30 June 2017 and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise:

- Gordon Lefevre (Chairman)
- James Georgeson
- John O'Farrell (appointed 4 April 2017)
- David Rowe (resigned 4 April 2017)

Operating and financial review

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

Principal activities of AMP

AMP is Australia and New Zealand's leading independent wealth management company, with an expanding international investment management business and a growing retail banking business in Australia.

We provide retail customers in Australia and New Zealand with financial advice and superannuation, retirement income and investment products. We also provide superannuation services for businesses, administration, banking and investment services for self-managed superannuation funds (SMSF), income protection, disability and life insurance, and selected banking products. These products and services are delivered directly from AMP and through a network of over 3,300 aligned and employed financial advisers in Australia and New Zealand and extensive relationships with independent financial advisers.

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

We have over 5,500 employees, around 770,000 shareholders and manage and administer \$247 billion in assets.

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

AMP's business consists of Australian wealth management, AMP Capital, AMP Bank, Australian wealth protection, New Zealand financial services and Australian mature.

The *Australian wealth management* business provides customers with superannuation, retirement income, investment, SMSF software and administration and financial advice services (through aligned and owned advice businesses).

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

Australian wealth protection comprises term life, disability and income protection insurance products sold on an individual and group basis. Insurance products can be bundled with a superannuation product or held independently.

New Zealand financial services provides tailored financial products and solutions to New Zealanders both directly and through a network of financial advisers. New Zealand financial services has a leading market position in both wealth protection and wealth management, in addition to being the market leader in advice and in providing support to advisers.

Australian mature is the largest closed life insurance business in Australia. Australian mature assets under management comprises capital guaranteed products (77%) and market linked products (23%). Australian mature products include whole of life, endowment, investment linked, investment account, Retirement Savings Account, Eligible Rollover Fund, annuities, insurance bonds, personal superannuation and guaranteed savings accounts.

Review of operations and results

AMPGH group's profit attributable to shareholders of AMP Group Holdings Limited for the half year ended 30 June 2017 was \$352m (1H 16: \$424m).

Capital management

Equity and reserves of the AMPGH group attributable to shareholders of AMP Group Holdings Limited decreased to \$5,013m at 30 June 2017 from \$5,043m at 31 December 2016.

Events occurring after reporting date

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the reporting date that has significantly affected or may significantly affect the entity's operations in future years; the results of those operations in future years; or the entity's state of affairs in future years which is not already reflected in this report, other than the following:

Reinsurance program

AMP's focus has been to reposition the wealth protection business in Australia as significantly less capital intensive. In August 2017, AMP Life executed a comprehensive program of reinsurance arrangements effective 1 November 2017 that is expected to release approximately \$500m of capital (subject to regulatory approval) and will result in the AMP Life retail portfolio being effectively 65% reinsured. This substantively completes the reinsurance program to release capital from the Australian WP business.

The new reinsurance arrangements apply to claims incurred from 1 November 2017. AMP will retain its current level of exposure to any claims incurred prior to that date, so the full benefit of the reduction in profit volatility will arise over time as all earlier claims are reported and settled.

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

The directors have obtained an independence declaration from the company's auditor, Ernst & Young, for the half year ended 30 June 2017.

Rounding

In accordance with the Australian Securities and Investments Commission Corporations Instrument 2016/191, amounts in this directors' report and the accompanying financial report have been rounded to the nearest million Australian dollars, unless stated otherwise.

AMP Group Holdings Limited

DIRECTORS' REPORT

For the half year ended 30 June 2017

Signed in accordance with a resolution of the directors.

A handwritten signature in blue ink, appearing to be 'J. Hall', is written over the word 'Director'.

Director

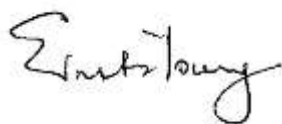
Sydney, 1 September 2017

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

As lead auditor for the review of AMP Group Holdings Limited for the half-year ended 30 June 2017, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of AMP Group Holdings Limited and the entities it controlled at the end of or during the half-year.



Ernst & Young



Tony Johnson
Partner
Sydney
1 September 2017

AMP GROUP HOLDINGS LIMITED
ABN 88 079 804 676
HALF YEAR FINANCIAL REPORT
30 JUNE 2017

Contents

Financial statements

Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Consolidated Statement of Financial Position
Consolidated Statement of Changes in Equity
Consolidated Statement of Cash Flows

Notes to the financial statements

Section 1: About this report

- 1.1 Basis of preparation of the half year financial report
- 1.2 Understanding the AMPGH financial report

Section 2: Results for the half year

- 2.1 Taxes
- 2.2 Dividends

Section 3: Investments and intangibles

- 3.1 Investments in financial instruments
- 3.2 Intangibles
- 3.3 Fair value information

Section 4: Capital structure

- 4.1 Contributed equity
- 4.2 Interest-bearing liabilities

Section 5: Other disclosures

- 5.1 Contingent liabilities
- 5.2 New accounting standards
- 5.3 Events occurring after reporting date

Directors' declaration

Independent auditor's report

Registered office:
33 Alfred Street
Sydney NSW 2000 Australia

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

Consolidated Income Statement

for the half year ended 30 June 2017

| | Note | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|---|------|-----------------------|-----------------------|
| Income and expenses of shareholders, policyholders, external unitholders and non-controlling interests¹ | | | |
| Life insurance contract related revenue | | 1,212 | 1,148 |
| Life insurance claims recovered from reinsurers | | 135 | 77 |
| Fee revenue | | 1,601 | 1,527 |
| Other revenue | | 40 | 57 |
| Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss | | 4,273 | 2,935 |
| Interest income on assets not at fair value through profit or loss | | 4 | 4 |
| Share of profit of associates accounted for using the equity method | | 11 | 14 |
| Life insurance contract claims expense | | (1,076) | (1,009) |
| Life insurance premiums ceded to reinsurers | | (282) | (92) |
| Fees and commission expenses | | (837) | (821) |
| Staff and related expenses | | (517) | (511) |
| Other operating expenses | | (487) | (512) |
| Finance costs | | (51) | (116) |
| Movement in external unitholder liabilities | | (438) | (313) |
| Change in policyholder liabilities | | | |
| - life insurance contracts | | (166) | (510) |
| - investment contracts | | (2,762) | (668) |
| Income tax expense | 2.1 | (284) | (247) |
| Profit for the period | | 376 | 963 |
| Profit attributable to shareholders of AMP Group Holdings Limited | | 352 | 424 |
| Profit attributable to non-controlling interests | | 24 | 539 |
| Profit for the period | | 376 | 963 |

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

Consolidated Statement of Comprehensive Income

for the half year ended 30 June 2017

| | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|--|-----------------------|-----------------------|
| Profit for the period | 376 | 963 |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Cash flow hedges | | |
| - losses in fair value of cash flow hedges | - | - |
| | - | - |
| Translation of foreign operations and revaluation of hedge of net investments | | |
| - exchange losses on translation of foreign operations and revaluation of hedge of net investments | (13) | (19) |
| | (13) | (19) |
| Items that will not be reclassified subsequently to profit or loss | | |
| Defined benefit plans | | |
| - actuarial gains (losses) | 18 | (78) |
| - income tax (expense) credit | (5) | 23 |
| | 13 | (55) |
| Owner-occupied property revaluation | | |
| - gains in valuation of owner-occupied property | - | 1 |
| | - | 1 |
| Other comprehensive loss for the period | - | (73) |
| Total comprehensive income for the period | 376 | 890 |
| Total comprehensive income attributable to shareholders of AMP Group Holdings Limited | 352 | 386 |
| Total comprehensive income attributable to non-controlling interests | 24 | 504 |
| Total comprehensive income for the period | 376 | 890 |

Consolidated Statement of Financial Position

as at 30 June 2017

| | Note | 30 Jun 2017 \$m | 31 Dec 2016 \$m |
|---|------|-----------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | | 6,426 | 5,904 |
| Receivables | | 2,976 | 1,983 |
| Intercompany tax receivable | | 79 | 111 |
| Current tax assets | | 9 | 24 |
| Planner registers held for sale and prepayments | | 86 | 119 |
| Investments in financial assets | 3.1 | 110,716 | 110,820 |
| Investment properties | | 130 | 127 |
| Investments in associates accounted for using the equity method | | 514 | 449 |
| Property, plant and equipment | | 64 | 66 |
| Deferred tax assets | 2.1 | 741 | 617 |
| Reinsurance asset - ceded life insurance contracts | | 608 | 546 |
| Intangibles | 3.2 | 3,186 | 3,199 |
| Total assets of shareholders of AMP Group Holdings Limited, policyholders, external unitholders and non-controlling interests | | 125,535 | 123,965 |
| Liabilities | | | |
| Payables | | 4,063 | 3,706 |
| Intercompany tax payable | | 665 | 201 |
| Current tax liabilities | | 30 | 25 |
| Provisions | | 181 | 201 |
| Employee benefits | | 246 | 265 |
| Other financial liabilities | 3.1 | 689 | 1,222 |
| Interest-bearing liabilities | 4.2 | 1,508 | 1,342 |
| Deferred tax liabilities | 2.1 | 1,580 | 1,945 |
| External unitholder liabilities | | 13,435 | 13,252 |
| Life insurance contract liabilities | | 24,090 | 24,225 |
| Investment contract liabilities | | 73,102 | 71,579 |
| Reinsurance liability - ceded life insurance contracts | | 523 | 530 |
| Defined benefit plan liabilities | | 22 | 44 |
| Total liabilities of shareholders of AMP Group Holdings Limited, policyholders, external unitholders and non-controlling interests | | 120,134 | 118,537 |
| Net assets of shareholders of AMP Group Holdings Limited and non-controlling interests | | 5,401 | 5,428 |
| Equity | | | |
| Contributed equity | 4.1 | 7,020 | 6,926 |
| Reserves | | (2,020) | (1,998) |
| Retained earnings | | 13 | 115 |
| Total equity of shareholders of AMP Group Holdings Limited | | 5,013 | 5,043 |
| Non-controlling interests | | 388 | 385 |
| Total equity of shareholders of AMP Group Holdings Limited and non-controlling interests | | 5,401 | 5,428 |

Consolidated Statement of Changes in Equity

for the half year ended 30 June 2017

| | Equity attributable to shareholders of AMP Group Holdings Limited | | | | | | | | | | | |
|---|---|-------------------------------|--|--------------------------------------|-------------------------|--|---|----------------|-------------------|--------------------------|--------------------------|--------------|
| | Contributed equity | Demerger reserve ¹ | Share-based payment reserve ² | Capital profits reserve ³ | Cash flow hedge reserve | Foreign currency translation and hedge of net investments reserves | Owner-occupied property revaluation reserve | Total reserves | Retained earnings | Total shareholder equity | Non-controlling interest | Total equity |
| | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m | \$ m |
| 30 June 2017 | | | | | | | | | | | | |
| Balance at 1 January 2017 | 6,926 | (2,566) | 71 | 329 | 21 | 147 | - | (1,998) | 115 | 5,043 | 385 | 5,428 |
| Profit | - | - | - | - | - | - | - | - | 352 | 352 | 24 | 376 |
| Other comprehensive income | - | - | - | - | - | (13) | - | (13) | 13 | - | - | - |
| Total comprehensive income | - | - | - | - | - | (13) | - | (13) | 365 | 352 | 24 | 376 |
| Share-based payment expense | - | - | 9 | - | - | - | - | 9 | - | 9 | 1 | 10 |
| Share purchases | - | - | (18) | - | - | - | - | (18) | - | (18) | (2) | (20) |
| Issue of share capital | 94 | - | - | - | - | - | - | - | - | 94 | - | 94 |
| Dividends paid | - | - | - | - | - | - | - | - | (467) | (467) | (18) | (485) |
| Sales and acquisitions of non-controlling interests | - | - | - | - | - | - | - | - | - | - | (2) | (2) |
| Balance at 30 June 2017 | 7,020 | (2,566) | 62 | 329 | 21 | 134 | - | (2,020) | 13 | 5,013 | 388 | 5,401 |
| 30 June 2016 | | | | | | | | | | | | |
| Balance at 1 January 2016 | 6,926 | (2,566) | 71 | 329 | 21 | 135 | 122 | (1,888) | 1,061 | 6,099 | 681 | 6,780 |
| Profit | - | - | - | - | - | - | - | - | 424 | 424 | 539 | 963 |
| Other comprehensive income | - | - | - | - | - | 16 | 1 | 17 | (55) | (38) | (35) | (73) |
| Total comprehensive income | - | - | - | - | - | 16 | 1 | 17 | 369 | 386 | 504 | 890 |
| Share-based payment expense | - | - | 15 | - | - | - | - | 15 | - | 15 | 1 | 16 |
| Share purchases | - | - | (24) | - | - | - | - | (24) | - | (24) | (2) | (26) |
| Dividends paid | - | - | - | - | - | - | - | - | (495) | (495) | (513) | (1,008) |
| Sales and acquisitions of non-controlling interests | - | - | - | - | - | - | - | - | - | - | 239 | 239 |
| Balance at 30 June 2016 | 6,926 | (2,566) | 62 | 329 | 21 | 151 | 123 | (1,880) | 935 | 5,981 | 910 | 6,891 |

- 1 Reserve to recognise the additional loss and subsequent transfer from shareholders' retained earnings on the demerger of AMP's UK operations in December 2003. The loss was the difference between the pro-forma loss on demerger and the market-based fair value of the UK operations.
- 2 The Share-based payment reserve represents the cumulative expense recognised in relation to equity-settled share-based payments less the cost of shares purchased on market in respect of entitlements.
- 3 The Capital profits reserve represents gains attributable to shareholders of AMPGH on the sale of minority interests in controlled entities to entities outside the AMPGH group.

Consolidated Statement of Cash Flows

for the half year ended 30 June 2017

| | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|---|-----------------------|-----------------------|
| Cash flows from operating activities¹ | | |
| Cash receipts in the course of operations | 9,440 | 8,593 |
| Interest and other items of a similar nature received | 638 | 735 |
| Dividends and distributions received ² | 557 | 373 |
| Cash payments in the course of operations | (11,322) | (9,974) |
| Finance costs | (50) | (120) |
| Income tax paid | (260) | (286) |
| Cash flows used in operating activities | (997) | (679) |
| Cash flows from investing activities¹ | | |
| Net proceeds from sale of (payments to acquire): | | |
| - investment property | - | 147 |
| - investments in financial assets | 796 | 3,569 |
| - operating and intangible assets | - | (66) |
| Payments to acquire operating controlled entities and investments in associates accounted for using the equity method | (68) | (28) |
| Cash flows (used in) from investing activities | 728 | 3,622 |
| Cash flows from financing activities | | |
| Net movement in deposits from customers | - | (1) |
| Proceeds from borrowings | 163 | 384 |
| Repayment of borrowings | - | (884) |
| Dividends paid | (467) | (495) |
| Cash flows from (used in) financing activities | (304) | (996) |
| Net (decrease) increase in cash and cash equivalents | (573) | 1,947 |
| Cash and cash equivalents at the beginning of the half year | 11,238 | 9,174 |
| Effect of exchange rate changes on cash and cash equivalents | (4) | 2 |
| Cash and cash equivalents at the end of the half year¹ | 10,661 | 11,123 |

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

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

Section 1: About this report

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

- 1.1 Basis of preparation of the half year financial report
- 1.2 Understanding the AMPGH financial report

1.1 Basis of preparation of the half year financial report

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

The consolidated entity prepares a general purpose financial report. This general purpose financial report has been prepared in accordance with the *Corporations Act 2001* and AASB134 *Interim Financial Reporting*. AMPGH group is a for-profit entity for the purposes of preparing financial statements.

This half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the AMPGH group as that given by the annual financial report. As a result, this report should be read in conjunction with the 2016 annual financial report of the AMPGH group.

The principal accounting policies and methods of computation adopted in the preparation of the 2017 half year financial report are consistent with the accounting policies and methods of computation adopted in the preparation of the 2016 annual financial report. Comparative information has been reclassified where required for consistency with the half year's presentation.

1.2 Understanding the AMPGH financial report

The consolidated financial statements of AMP Group Holdings Limited include the financial information of its controlled entities.

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

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

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

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

Section 2: Results for the half year

- 2.1 Taxes
- 2.2 Dividends

2.1 Taxes

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

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

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

(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 half year and the income tax expense recognised in the Income statement for the half year.

| | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|--|-----------------------|-----------------------|
| Profit before income tax | 660 | 1,210 |
| Policyholder tax expense recognised as part of the change in policyholder liabilities in determining profit before tax | (141) | (39) |
| Profit before income tax attributable to shareholders and non-controlling interest | 519 | 1,171 |
| Tax at the Australian tax rate of 30% (2016: 30%) | (156) | (351) |
| Shareholder impact of life insurance tax treatment | (11) | (26) |
| Tax concessions including research and development and offshore banking unit | 3 | 4 |
| Non-deductible expenses | (13) | (6) |
| Non-taxable income | 40 | 4 |
| Other items | (12) | (1) |
| Non-controlling interests | - | 154 |
| (Under) over provided in previous years | (2) | 9 |
| Utilisation of previously unrecognised tax losses | 2 | - |
| Differences in overseas tax rates | 6 | 5 |
| Income tax expense attributable to shareholders and non-controlling interest | (143) | (208) |
| Income tax expense attributable to policyholders | (141) | (39) |
| Income tax expense per Income Statement | (284) | (247) |

Section 2: Results for the half year

2.1 Taxes (continued)

(b) Analysis of income tax expense

| | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|---|-----------------------|-----------------------|
| Current tax expense | (790) | (393) |
| Increase in deferred tax assets | 149 | 12 |
| Decrease in deferred tax liabilities | 360 | 106 |
| (Under) over provided in previous years including amounts attributable to policyholders | (3) | 28 |
| Income tax expense | (284) | (247) |

(c) Analysis of deferred tax balances

| | 30 Jun 2017 \$m | 31 Dec 2016 \$m |
|---|-----------------------|-----------------------|
| Analysis of deferred tax assets | | |
| Expenses deductible and income recognisable in future years | 622 | 484 |
| Unrealised movements on borrowings and derivatives | 2 | 21 |
| Unrealised investment losses | 40 | 28 |
| Losses available for offset against future taxable income | 22 | 42 |
| Other | 55 | 42 |
| Total deferred tax assets | 741 | 617 |
| Analysis of deferred tax liabilities | | |
| Unrealised investment gains | 1,170 | 1,498 |
| Unrealised movements on borrowings and derivatives | - | 1 |
| Other | 410 | 446 |
| Total deferred tax liabilities | 1,580 | 1,945 |

(d) Amounts recognised directly in equity

| | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|--|-----------------------|-----------------------|
| Deferred income tax (expense) credit related to items taken directly to equity during the period | (5) | 23 |

Section 2: Results for the half year

2.2 Dividends

Dividends paid during the half year are shown in the table below:

| | 30 Jun 2017 \$m | 30 Jun 2016 \$m |
|--|-----------------------|-----------------------|
| Dividends paid | | |
| Dividends paid during the period (HY17: 4.50 cents per share, HY16: 4.78 cents per share) | 467 | 495 |
| Total dividends paid | 467 | 495 |

Section 3: Investments and intangibles

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

- 3.1 Investments in financial instruments
- 3.2 Intangibles
- 3.3 Fair value information

3.1 Investments in financial instruments

| | 30 Jun 2017 \$m | 31 Dec 2016 \$m |
|---|-----------------------|-----------------------|
| Financial assets measured at fair value through profit or loss¹ | | |
| Equity securities and listed managed investment schemes | 53,454 | 53,627 |
| Debt securities ² | 33,324 | 34,513 |
| Investments in unlisted managed investment schemes | 22,553 | 21,358 |
| Derivative financial assets | 1,112 | 1,176 |
| Other financial assets | 4 | 5 |
| Total financial assets measured at fair value through profit or loss | 110,447 | 110,679 |
| Financial assets measured at amortised cost | | |
| Loans and advances | 5 | 5 |
| Debt securities - held to maturity | 264 | 136 |
| Total financial assets measured at amortised cost | 269 | 141 |
| Total financial assets | 110,716 | 110,820 |
| Other financial liabilities | | |
| Derivative financial liabilities | 626 | 1,130 |
| Collateral deposits held ² | 63 | 92 |
| Total other financial liabilities | 689 | 1,222 |

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

2 Included within debt securities are assets held to back the liability for collateral deposits for debt security repurchase arrangements entered into by AMP Life's statutory funds and controlled entities of those statutory funds. Collateral deposits held are mostly in respect of the obligation to repay collateral for the debt security repurchase arrangements.

Section 3: Investments and intangibles

3.2 Intangibles

| | Goodwill ¹ \$m | Capitalised costs \$m | Value of in-force business \$m | Distribution networks \$m | Other intangibles \$m | Total \$m |
|---|------------------------------|-----------------------------|---|---------------------------------|-----------------------------|----------------|
| 30 June 2017 | | | | | | |
| Balance at 1 January 2017 | 2,117 | 382 | 600 | 99 | 1 | 3,199 |
| Additions through acquisitions of controlled entities | 4 | - | - | - | - | 4 |
| Additions through internal development | - | 77 | - | - | - | 77 |
| Transferred from inventories | - | - | - | 46 | - | 46 |
| Amortisation expense | - | (74) | (51) | (14) | - | (139) |
| Impairment loss | - | (1) | - | - | - | (1) |
| Balance at 30 June 2017 | 2,121 | 384 | 549 | 131 | 1 | 3,186 |
| <i>Cost</i> | <i>2,897</i> | <i>1,343</i> | <i>1,191</i> | <i>310</i> | <i>95</i> | <i>5,836</i> |
| <i>Accumulated amortisation and impairment</i> | <i>(776)</i> | <i>(959)</i> | <i>(642)</i> | <i>(179)</i> | <i>(94)</i> | <i>(2,650)</i> |
| 31 December 2016 | | | | | | |
| Balance at 1 January 2016 | 2,782 | 374 | 703 | 123 | 1 | 3,983 |
| Additions through acquisitions of controlled entities | 3 | 4 | - | 4 | - | 11 |
| Additions through internal development | - | 133 | - | - | - | 133 |
| Transferred from inventories | - | - | - | 9 | - | 9 |
| Amortisation expense | - | (129) | (103) | (37) | - | (269) |
| Impairment loss | (668) | - | - | - | - | (668) |
| Balance at 31 December 2016 | 2,117 | 382 | 600 | 99 | 1 | 3,199 |
| <i>Cost</i> | <i>2,893</i> | <i>1,266</i> | <i>1,191</i> | <i>264</i> | <i>95</i> | <i>5,709</i> |
| <i>Accumulated amortisation and impairment</i> | <i>(776)</i> | <i>(884)</i> | <i>(591)</i> | <i>(165)</i> | <i>(94)</i> | <i>(2,510)</i> |

1 Total goodwill comprises amounts attributable to shareholders of \$2,106m (2016: \$2,102m) and amounts attributable to policyholders of \$15m (2016: \$15m).

Section 3: Investments and intangibles

3.3 Fair value information

The following table shows the carrying amount and estimated fair values of financial instruments and investment properties, including their levels in the fair value hierarchy.

| | Carrying amount \$m | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total fair value \$m |
|---|---------------------------|----------------|----------------|----------------|----------------------------|
| 30 June 2017 | | | | | |
| Financial assets measured at fair value | | | | | |
| Equity securities and listed managed investment schemes | 53,454 | 51,276 | 19 | 2,159 | 53,454 |
| Debt securities | 33,324 | 63 | 33,246 | 15 | 33,324 |
| Investments in unlisted managed investment schemes | 22,553 | - | 20,699 | 1,854 | 22,553 |
| Derivative financial assets | 1,112 | 168 | 944 | - | 1,112 |
| Investment properties | 130 | - | - | 130 | 130 |
| Other financial assets | 4 | - | - | 4 | 4 |
| Total financial assets measured at fair value | 110,577 | 51,507 | 54,908 | 4,162 | 110,577 |
| Financial assets not measured at fair value | | | | | |
| Loans and advances | 5 | - | 5 | - | 5 |
| Debt securities - held to maturity | 264 | - | 264 | - | 264 |
| Total financial assets not measured at fair value | 269 | - | 269 | - | 269 |
| Financial liabilities measured at fair value | | | | | |
| Derivative financial liabilities | 626 | 171 | 455 | - | 626 |
| Collateral deposits held | 63 | - | 63 | - | 63 |
| Investment contract liabilities | 73,102 | - | 2,205 | 70,897 | 73,102 |
| Total financial liabilities measured at fair value | 73,791 | 171 | 2,723 | 70,897 | 73,791 |
| Financial liabilities not measured at fair value | | | | | |
| AMP Corporate entities - bonds and notes | 1,055 | 67 | 988 | - | 1,055 |
| AMP Life and investment entities controlled by AMP Life | 453 | - | 453 | - | 453 |
| Total financial liabilities not measured at fair value | 1,508 | 67 | 1,441 | - | 1,508 |
| 31 December 2016 | | | | | |
| Financial assets measured at fair value | | | | | |
| Equity securities and listed managed investment schemes | 53,627 | 51,057 | 71 | 2,499 | 53,627 |
| Debt securities | 34,513 | 68 | 34,426 | 19 | 34,513 |
| Investments in unlisted managed investment schemes | 21,358 | - | 20,416 | 942 | 21,358 |
| Derivative financial assets | 1,176 | 219 | 957 | - | 1,176 |
| Investment properties | 127 | - | - | 127 | 127 |
| Other financial assets | 5 | - | - | 5 | 5 |
| Total financial assets measured at fair value | 110,806 | 51,344 | 55,870 | 3,592 | 110,806 |
| Financial assets not measured at fair value | | | | | |
| Loans and advances | 5 | - | 5 | - | 5 |
| Debt securities - held to maturity | 136 | - | 136 | - | 136 |
| Total financial assets not measured at fair value | 141 | - | 141 | - | 141 |
| Financial liabilities measured at fair value | | | | | |
| Derivative financial liabilities | 1,130 | 97 | 1,033 | - | 1,130 |
| Collateral deposits held | 92 | - | 92 | - | 92 |
| Investment contract liabilities | 71,579 | - | 2,252 | 69,327 | 71,579 |
| Total financial liabilities measured at fair value | 72,801 | 97 | 3,377 | 69,327 | 72,801 |
| Financial liabilities not measured at fair value | | | | | |
| AMP Corporate entities - bonds and notes | 991 | - | 994 | - | 994 |
| AMP Life and investment entities controlled by AMP Life | 351 | - | 353 | - | 353 |
| Total financial liabilities not measured at fair value | 1,342 | - | 1,347 | - | 1,347 |

Section 3: Investments and intangibles

3.3 Fair value information (continued)

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

| | |
|--|--|
| <i>Equity securities and listed managed investment schemes</i> | The fair value of 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. |
| <i>Loans</i> | The fair value of loans represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the loans. As the loans are unlisted, the discount rates applied are based on the yield curves appropriate to the remaining term of the loans. The loans may be measured at an amount in excess of fair value due to fluctuations on fixed rate loans. As the fluctuations in fair value do not represent a permanent diminution and the carrying amounts of the loans are recorded at recoverable amounts after assessing impairment, it is not appropriate to restate their carrying amount. |
| <i>Unlisted managed investment schemes</i> | The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date. |
| <i>Derivative financial assets and liabilities</i> | The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices (current bid price or current offer price) at the reporting date. The fair value of financial instruments not traded in an active market (eg over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, discounted cash flow methods and comparison to quoted market prices or dealer quotes for similar instruments. |
| <i>Subordinated debt</i> | The fair value of subordinated debt is determined with reference to quoted market prices at the reporting date. |

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 2017 financial half year. Transfers to and from Level 3 are shown in the Reconciliation of Level 3 values table later in this note.

Section 3: Investments and intangibles

3.3 Fair value information (continued)

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. | Judgement made in determining unit prices |
| 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. |

Sensitivity analysis

Reasonably possible alternative assumptions could have been used in determining the fair values of financial instruments categorised as Level 3. The following table shows the sensitivity to changes in key assumptions, calculated by changing one or more of the significant unobservable inputs for individual assets. This included assumptions such as credit risk and discount rates for determining the valuation range on an individual estimate.

| | 30 June 2017 | | 31 December 2016 | |
|---|-----------------|------------|---------------------|------------|
| | (+) \$m | (-) \$m | (+) \$m | (-) \$m |
| Financial assets | | | | |
| Equity securities and listed managed investment schemes | 88 | (87) | 146 | (153) |
| Financial liabilities | | | | |
| Investment contract liabilities | 5 | (5) | 6 | (5) |

Financial assets 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 AMP Capital valuation committee who meet at least every six months, or more frequently if required.

Section 3: Investments and intangibles

3.3 Fair value information (continued)

Level 3 fair values (continued)

Reconciliation of Level 3 values

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

| | Balance at the beginning of the period \$m | FX gains or losses ¹ \$m | Total gains/ losses ¹ \$m | Purchases/ deposits \$m | Sales/ withdrawals \$m | Net transfers in/(out) ² \$m | Balance at the end of the period \$m | Total gains and losses on assets and liabilities held at reporting date \$m |
|---|---|---|--|-------------------------------|------------------------------|--|---|--|
| 30 June 2017 | | | | | | | | |
| Assets classified as Level 3 | | | | | | | | |
| Equity securities and listed managed investment schemes | 2,499 | - | 175 | 69 | (322) | (262) | 2,159 | 179 |
| Debt securities | 19 | - | - | - | (4) | - | 15 | - |
| Investments in unlisted managed investment schemes | 942 | - | 53 | 55 | (25) | 829 | 1,854 | 50 |
| Investment properties | 127 | - | 2 | 1 | - | - | 130 | - |
| Other financial assets | 5 | - | (1) | - | - | - | 4 | (1) |
| Liabilities classified as Level 3 | | | | | | | | |
| Investment contract liabilities | 69,327 | (3) | 2,176 | 5,686 | (6,289) | - | 70,897 | 2,089 |
| 31 December 2016 | | | | | | | | |
| Assets classified as Level 3 | | | | | | | | |
| Equity securities and listed managed investment schemes | 3,410 | - | 191 | 271 | (1,580) | 207 | 2,499 | 190 |
| Debt securities | 1,534 | - | (3) | 2 | (1,329) | (185) | 19 | (2) |
| Investments in unlisted managed investment schemes | 1,130 | 3 | 10 | 96 | (25) | (272) | 942 | 8 |
| Investment properties | 386 | - | 105 | 6 | (370) | - | 127 | 105 |
| Other financial assets | 8 | - | (1) | - | (2) | - | 5 | (1) |
| Liabilities classified as Level 3 | | | | | | | | |
| Investment contract liabilities | 67,484 | 7 | 3,413 | 10,785 | (12,362) | - | 69,327 | 3,333 |

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

2 The AMPGH group recognises transfers as at the end of the reporting period during which the transfer has occurred. Transfers are recognised when there are changes in the observability of the pricing of the relevant securities or where the AMPGH group cease to consolidate a controlled entity.

Section 4: Capital structure

This section provides information relating to AMPGH group's capital management and equity and debt structure.

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

- 4.1 Contributed equity
- 4.2 Interest-bearing liabilities

4.1 Contributed equity

| | 30 Jun 2017 \$m | 31 Dec 2016 \$m |
|---|-----------------------|-----------------------|
| Issued capital | | |
| 10,373,884,650 (2016: 10,373,884,649) ordinary shares fully paid | 7,020 | 6,926 |
| Total contributed equity | | |
| 10,373,884,650 (2016: 10,373,884,649) ordinary shares fully paid | 7,020 | 6,926 |
| Issued capital | | |
| Balance at the beginning of the period | 6,926 | 6,926 |
| Issue of share capital | 94 | - |
| Balance at the end of the period | 7,020 | 6,926 |

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

4.2 Interest-bearing liabilities

| | 30 Jun 2017 \$m | 31 Dec 2016 \$m |
|--|-----------------------|-----------------------|
| Interest-bearing liabilities | | |
| AMP Corporate entities | | |
| - 6.875% GBP Subordinated Guaranteed Bonds (maturity 2022) | 71 | 71 |
| - Subordinated debt from parent entity | 300 | 300 |
| - Syndicated loan facility ¹ | 500 | 500 |
| - Commercial paper | 166 | 114 |
| - Other | 18 | 6 |
| AMP Life and investment entities controlled by AMP Life | 453 | 351 |
| Total interest-bearing liabilities | 1,508 | 1,342 |

¹ Includes two tranches of \$250m (maturity 2018 and 2020 respectively).

Section 5: Other disclosures

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

- 5.1 Contingent liabilities
- 5.2 New accounting standards
- 5.3 Events occurring after reporting date

5.1 Contingent liabilities

As at the date of this report, there have been no material changes in contingent liabilities since those reported in the 2016 annual financial report.

5.2 New accounting standards

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

There are no new standards or amendments to standards which apply for the first time in 2017 which would have a material impact on the financial reports of the AMPGH group.

b) New accounting standards issued but not yet effective

A number of new accounting standards and amendments have been issued but are not yet effective, none of which have been early adopted by the AMPGH group in this financial report.

AASB 15 *Revenue from Contracts with Customers* (AASB 15) and AASB 9 *Financial Instruments* (AASB 9) are effective for periods beginning on 1 January 2018. Implementation projects for these standards are well-progressed. Based on the current status of the implementation projects, no material impact on the AMPGH group is expected upon adoption of AASB 15 and AASB 9.

AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts* (AASB 17) is effective for periods beginning on 1 January 2021. The new standard will introduce significant change to the accounting for life insurance contracts and the reporting and disclosures in relation to those contracts.

The new standard, of itself, does not change the underlying economics or cash flows of the life insurance business. However, it is anticipated that there will be an impact on profit emergence profiles from life insurance contracts. Subject to any changes to regulation or legislation which may be made in response to the new standard, there may also be an impact on the determination of capital requirements and income tax.

The detailed requirements of the standard are complex and, in some cases, the final impact of these requirements will not be determined until interpretations and regulatory responses to the new standard are developed. The AMPGH group is currently undertaking an assessment of the potential impact of this standard.

5.3 Events occurring after reporting date

In August 2017, AMP Life executed a comprehensive program of reinsurance arrangements effective 1 November 2017 that is expected to release approximately \$500m of capital (subject to regulatory approval) and will result in the AMP Life retail portfolio being effectively 65% reinsured.

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

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

Directors' declaration

for the half year ended 30 June 2017

In accordance with a resolution of the directors of AMP Group Holdings Limited, we state for the purposes of section 303(4) of the *Corporations Act 2001* that, in the opinion of the directors:

- (a) there are reasonable grounds to believe that AMP Group Holdings Limited will be able to pay its debts as and when they become due and payable; and
- (b) the financial statements and the notes of AMP Group Holdings Limited for the financial half year ended 30 June 2017 are in accordance with the *Corporations Act 2001*, including section 304 (compliance with accounting standards) and section 305 (true and fair view).



Director

Sydney, 1 September 2017

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of AMP Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 June 2017, income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410), in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Tony Johnson
Partner
Sydney
1 September 2017