AMP Life Limited

ABN 84 079 300 379

Directors' report and Financial report for the year ended 31 December 2019

AMP Life Limited

Directors' Report

for the year ended 31 December 2019

The directors of AMP Life Limited ('AMP Life' or 'the company') present their report on the company for the financial year ended 31 December 2019.

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 ("AMP") 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	
Megan Beer	Chief Executive Officer	
Geoffrey Roberts	Non-executive Director	Resigned 02 May 2019
Andrew Harmos	Non-executive Director	
Michael Wilkins	Non-executive Director	
Andrea Slattery	Non-executive Director	Appointed 02 May 2019

Principal activities

AMP Life provides a range of products and services to customers in Australia and New Zealand. These products and services include superannuation, investments, retirement savings, income protection and life insurance. AMP Life's products and services are primarily distributed through self-employed financial planners and advisers aligned with AMP. AMP Life's wealth protection business is largely closed to new business. 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 2019 was a profit after tax of $62m (2018: loss after tax of $139m).

Dividends and distributions

Details of the dividends paid and dividends recommended or declared for payment but not paid are disclosed in Note 1.5 of the Financial Report.

Significant changes in the state of affairs and likely developments

On 8 August 2019, AMP Limited announced a revised agreement with Resolution Life Australia Pty Ltd (Resolution), with updated terms, for the sale of its Australian and New Zealand wealth protection and mature businesses. This includes the sale of AMP Life, subject to the prior removal from AMP Life of business outside the scope of the sale.

The sale is currently expected to complete in 1H20.

Events occurring after reporting date

AMP Life entered into a Sale purchase agreement with AMP Limited in December 2018 for the sale of its 19.99% interest in China Life Pension Company Limited (CLPC) subject to China Banking and Insurance Regulatory Commission (CBIRC) approval.

CBIRC approved the sale of AMP Life's interest in China Life Pension Company (CLPC) on 15 January 2020 and additional steps are currently underway in order to satisfy other required conditions to close this transaction. The transaction will be recognised in first half of 2020 upon completion.

Other than the matter 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.

Directors' Report
for the year ended 31 December 2019

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 current and former officers of the company (including the directors) against any liability (including the reasonable costs and expenses of defending proceedings for an actual or alleged liability) incurred in their capacity as officers 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 or on behalf of the AMP Limited Board.

During, and since the end of, the financial year ended 31 December 2019, AMP Limited (the company's ultimate parent company) maintained, and paid the premium for, directors' and officers' and company reimbursement insurance for the benefit of all of the officers of the AMP group (including each director, secretary and senior manager of the company) against certain liabilities (including legal costs) as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the liabilities covered, the amount of the premium payable and the limit of liability.

In addition, AMP Group Holdings Limited ("AMPGH") and each of the current and former directors and secretaries of the company are parties to deeds of indemnity, insurance and access. Those deeds provide that:

- these officers will have access to Board papers and specified records of the company (and of certain other companies) for their periods of office and for at least ten (or, in some cases, seven) years after they cease to hold office (subject to certain conditions);
- AMPGH indemnifies the relevant officers to the extent permitted by law, and to the extent and for the amount that the relevant officer is not otherwise entitled to be, and is not actually, indemnified by another person;
- the indemnity covers liabilities (including legal costs) incurred by the relevant officer in their capacity as a current or former director or secretary (and, in the case of directors, as a current or former officer or specified representative) of the company, or of another AMP group company or, in certain cases, of an external company (where the person holds the relevant external position at the AMP group's request); and
- the AMP group will maintain directors' and officers' insurance cover for those officers, to the extent permitted by law, for the period of their office and for at least ten years after they cease to hold office.

Indemnification of auditors
To the extent permitted by law, the company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit, other than where the claim is determined to have resulted from breach or any negligent, wrongful or wilful act or omission by or of Ernst & Young. No payment has been made to indemnify Ernst & Young during or since the financial year ended 31 December 2019.

Auditor's independence
The directors have obtained an independence declaration from the company's auditor, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2019.

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 Chairman	Megan Beer Chief Executive Officer

Sydney, 12 February 2020

Building a better working world

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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 2019, 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
12 February 2019

AMP LIFE LIMITED
ABN 84 079 300 379
FULL YEAR FINANCIAL REPORT
31 DECEMBER 2019

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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 2019

	Note	2019 $m	2018 $m
Income and expenses of the shareholder and policyholders[1]			
Life insurance contract related revenue	4.2(a)	2,244	2,653
Life insurance claims recovered from reinsurers	4.2(b)	512	487
Fee revenue	1.1	878	1,044
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss	1.2	14,580	345
Share of profit of associates accounted for using the equity method		24	10
Life insurance contract claims expense	4.2(b)	(2,175)	(2,254)
Life insurance contract premiums ceded to reinsurers	4.2(a)	(1,033)	(989)
Fees and commission expenses	1.3	(562)	(597)
Goodwill impairment	2.2	(65)	(387)
Other operating expenses	1.3	(684)	(905)
Finance costs		(19)	(20)
Change in policyholder liabilities			
- life insurance contracts	4.2(e)	(1,437)	81
- investment contracts		(11,126)	89
Income tax (expense) credit	1.4 (a)	(1,075)	304
Profit (loss)for the year		**62**	**(139)**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange gains on translation of foreign operations		3	51
Other comprehensive income for the year		**3**	**51**
Total comprehensive income (loss) for the year		**65**	**(88)**

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 lines Change in policyholder liabilities.

Statement of financial position

as at 31 December 2019

	Note	2019 $m	2018 $m
Assets			
Cash and cash equivalents	6.1	1,895	2,410
Receivables and prepayments	2.3	1,015	994
Intercompany tax receivable		282	138
Current tax assets		-	22
Investments in financial assets	2.1	98,620	94,281
Investments in associate accounted for using the equity method	5.3	325	305
Deferred tax assets	1.4 (c)	469	459
Reinsurance asset - ceded life insurance contracts	4.2 (d)	1,222	1,073
Intangibles	2.2	65	130
Total assets of policyholders and the shareholder		**103,893**	**99,812**
Liabilities			
Payables	2.4	2,139	1,382
Intercompany tax payable		50	7
Current tax liabilities		23	-
Provisions		40	34
Other financial liabilities	2.1	229	210
Interest-bearing liabilities	3.2	319	329
Borrowing from related parties		-	392
Deferred tax liabilities	1.4 (c)	2,195	1,421
Life insurance contract liabilities	4.2 (d)	23,494	23,246
Investment contract liabilities		71,550	68,627
Reinsurance liability - ceded life insurance contracts	4.2 (d)	1,515	1,452
Total liabilities of policyholders and the shareholder		**101,554**	**97,100**
Net assets of the shareholder		**2,339**	**2,712**
Equity			
Contributed equity	3.1	1,473	1,473
Reserves		(13)	(16)
Retained earnings		879	1,255
Total equity of the shareholder		**2,339**	**2,712**

Statement of changes in equity

for the year ended 31 December 2019

	Note	Contributed equity $m	Cash flow hedge reserve $m	Foreign currency translation reserve $m	Retained earnings $m	Total equity $m
31 December 2019						
Balance at the beginning of the year		1,473	21	(37)	1,255	2,712
Profit for the year		-	-	-	62	62
Other comprehensive income		-	-	3	-	3
Total comprehensive income		-	-	3	62	65
Dividends paid - ordinary shares	1.5	-	-	-	(419)	(419)
Distributions paid - capital notes	1.5	-	-	-	(19)	(19)
Balance at the end of the year		**1,473**	**21**	**(34)**	**879**	**2,339**
31 December 2018						
Balance at the beginning of the year		1,473	21	(88)	2,406	3,812
Loss for the year		-	-	-	(139)	(139)
Other comprehensive income		-	-	51	-	51
Total comprehensive loss		-	-	51	(139)	(88)
Dividends paid - ordinary shares	1.5	-	-	-	(992)	(992)
Distributions paid - capital notes	1.5	-	-	-	(20)	(20)
Balance at the end of the year		**1,473**	**21**	**(37)**	**1,255**	**2,712**

Statement of cash flows

for the year ended 31 December 2019

	Note	2019 $m	2018 $m
Cash flows from operating activities			
Cash receipts in the course of operations		11,440	12,799
Interest and other items of a similar nature received		171	205
Dividends and distributions received		654	620
Cash payments in the course of operations		(21,668)	(20,289)
Finance costs		(19)	(20)
Income tax paid		(367)	(391)
Cash flows used in operating activities	6.1(a)	**(9,789)**	**(7,076)**
Cash flows from investing activities			
Net proceeds from sales of financial assets		9,210	8,060
Advance proceed for sale of associate entity		326	-
Cash flows from investing activities		**9,536**	**8,060**
Cash flows from financing activities			
Redemption of subordinated debts		-	(50)
Payments from borrowing		-	(1)
Dividends and distributions paid[1]	1.5	(252)	(1,012)
Cash flows used in financing activities		**(252)**	**(1,063)**
Net decrease in cash and cash equivalents		**(505)**	**(79)**
Cash and cash equivalents at beginning of the year		2,421	2,489
Effect of exchange rate changes on cash and cash equivalents		2	11
Cash and cash equivalents at the end of the year	6.1(b)	**1,918**	**2,421**

1 The total dividends and distributions paid for FY19 is $438m, which consists of amount paid in cash of $252m and endorsing promissory notes of $186m.

About this report

(a) 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 2019 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.

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.

Agreement to sell wealth protection and mature business

On 25 October 2018, AMP announced an agreement with Resolution Life Australia Pty Ltd (Resolution) to sell its Australian and New Zealand wealth protection and mature businesses. On 8 August 2019, AMP announced a revised agreement with updated terms for the sale of these businesses, subject to regulatory approvals, which is expected to complete in the first half of 2020.

The sale is subject to a number of conditions, including regulatory approvals and the separation of the wealth management (WM) business held by AMP Life (which is excluded from the transaction with Resolution). As the WM business held by AMP Life does not meet the AASB 5 Non-current Assets Held for Sale and Discontinued Operations criteria, the results of that business have not been presented separately in the financial report.

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.

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.

Estimates of amounts 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 parent entity is AMP Financial Services Holdings Limited, and the company's ultimate parent entity is AMP Limited.

The financial report for the year ended 31 December 2019 were authorised for issue on 12 February 2020 in accordance with a resolution of the directors.

About this report

(b) 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.

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

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

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

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

(c) 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 1.4	Taxes	12
Fair value of financial assets	Note 2.1	Investments in financial instruments	15
Goodwill and acquired intangible assets	Note 2.2	Intangibles	16
Life insurance contract liabilities	Note 4.1	Accounting for life insurance contracts and investment contracts	30
Investment contract liabilities	Note 4.1	Accounting for life insurance contracts and investment contracts	30

Section 1: Results for the year

- 1.1 Fee revenue (revenue from contracts with customers)
- 1.2 Investment gains and (losses)
- 1.3 Operating expenses
- 1.4 Taxes
- 1.5 Dividends and distributions

1.1 Fee revenue (revenue from contracts with customers)

	2019 $m	2018 $m
Investment management and contract fees	832	998
Service fees		
- related entities	46	46
Total revenue from contracts with customers	**878**	**1,044**

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.

1.2 Investment gains and (losses)

	2019 $m	2018 $m
Interest		
- related entities	31	41
- other entities	139	164
Dividends and distributions		
- related entities	4,285	5,158
- associated entities	82	90
- other entities	571	436
Net realised and unrealised gains and (losses)	9,460	(5,550)
Other investment income	12	6
Total investment gains and (losses)[1]	**14,580**	**345**

1 Investment gains and losses comprise the net gains and losses on all investments held by AMP Life including shareholder and policyholders. Investment income is predominately from financial instruments backing policyholder liabilities and shareholders' investment assets. To the extent that investment gains and losses are offset by changes in investment contract liabilities and allocated to participating life insurance contract holders, they do not directly affect shareholder profit.

Accounting policy – recognition and measurement

Investment gains and (losses)
Refer to note 2.1 for accounting policy on financial assets measured at fair value through profit or loss.

Section 1: Results for the year

1.3 Operating expenses

	2019 $m	2018 $m
Commission expenses	(273)	(312)
Investment management expenses		
- related entities	(237)	(246)
- other entities	(52)	(39)
Fees and commission expenses	**(562)**	**(597)**
Service fee expenses from related entities	(644)	(819)
Other expenses	(40)	(86)
Other operating expenses	**(684)**	**(905)**

Section 1: Results for the year

1.4 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.

	2019 $m	2018 $m
Profit (loss) before income tax	1,137	(443)
Policyholder tax (expense) credit recognised as part of the change in policyholder liabilities in determining profit before income tax	(990)	399
Profit (loss) before income tax excluding tax charged to policyholders	**147**	**(44)**
Tax at the Australian tax rate of 30% (2018: 30%)	(44)	13
Shareholder impact of life insurance tax treatment	(52)	(2)
Non-deductible expenses	(23)	(118)
Non-taxable income	25	4
Non-assessable income	4	-
Other items	4	3
Over provided in previous years after excluding amounts attributable to policyholders	-	2
Differences in overseas tax rate	1	3
Income tax expense attributable to shareholders	(85)	(95)
Income tax (expense) credit attributable to policyholders	(990)	399
Income tax (expense) credit per Statement of comprehensive income	**(1,075)**	**304**

Section 1: Results for the year

1.4 Taxes (continued)

(b) Analysis of income tax (expense) credit

	2019 $m	2018 $m
Current tax expense	(311)	(244)
Increase in deferred tax assets	10	6
(Increase) decrease in deferred tax liabilities	(774)	542
Income tax (expense) credit	**(1,075)**	**304**

(c) Analysis of deferred tax balances

	2019 $m	2018 $m
Analysis of deferred tax assets		
Expenses deductible and income recognisable in future years	468	425
Unrealised investment losses	1	34
Total deferred tax assets	**469**	**459**

Analysis of deferred tax liabilities		
Unrealised investment gains	1,972	1,156
Other	223	265
Total deferred tax liabilities	**2,195**	**1,421**

Section 1: Results for the year

1.4 Taxes (continued)

Accounting policy – recognition and measurement

Income tax expense
Income tax credit (expenses) 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 credit (expenses) 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 their present values

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

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

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 intercompany 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.

Section 1: Results for the year

1.5 Dividends and distributions

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

	2019 $m	2018 $m
Previous year final dividend of nil (2018: $7.08) per ordinary share[1]	-	(881)
Interim dividend of $3.37 (2018: $0.89) per ordinary share	(419)	(111)
Distributions paid - capital notes	(19)	(20)
Total dividends and distributions paid	**(438)**	**(1,012)**
Final dividend proposed but not recognised		
2019: $nil (2018: $1.83) per ordinary share	-	(228)

1 The final dividend proposed but not recognised for FY18 was ultimately not paid, a revised interim dividend was declared and paid in FY19.

Section 2: Investments, intangibles and working capital

2.1 Investments in financial instruments

	2019 $m	2018 $m
Financial assets measured at fair value through profit or loss		
Equity securities and listed managed investment schemes [1]	5,385	5,199
Debt securities	2,554	2,558
Investments in unlisted equity securities and managed investment schemes [2]	90,103	85,853
Derivative financial assets	578	487
Total financial assets measured at fair value through profit or loss	**98,620**	**94,097**
Investments in controlled entities at cost	**-**	**184**
Total investments in financial assets	**98,620**	**94,281**
Other financial liabilities		
Derivative financial liabilities	229	210
Total other financial liabilities	**229**	**210**

1 Includes investments in controlled unit trusts of $10m (2018: $9m).

2 Includes investments in controlled entities of $3,005m (2018: $3,257m) and controlled unit trusts of $82,308m (2018: $78,616m)

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, 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 note 2.5.

Section 2: Investments, intangibles and working capital

2.2 Intangibles

Goodwill

	2019 $m	2018 $m
Gross carrying amount	130	517
Less: impairment	(65)	(387)
Intangibles at written down value	**65**	**130**

Goodwill attributable to shareholders
The goodwill attributable to shareholders of $65m (2018: $130m) 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, goodwill is allocated to cash-generating units (CGUs) as follows:

$m	2019	2018
Australian wealth protection (AU WP)	-	65
Australian mature	65	65
	65	130

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
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.

Impairment testing
AMP Life performed annual impairment test for goodwill allocated to each CGU AU WP and Australian mature. As at 31 December 2019, the recoverable amount for each CGUs was determined based on the revised offer price agreed between AMP and Resolution on 8 August 2019. As the expected recoverable amount for AU WP was insufficient to support the value of allocated goodwill based on the impairment testing exercise conducted in 2019, an impairment of $65m representing the value of goodwill allocated to AU WP has been recognised.

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

	2019 $m	2018 $m
Investment related receivables	312	323
Life insurance contract premiums receivable	320	338
Reinsurance receivables	220	186
Other receivables		
- related entities	135	119
- other entities	26	26
Prepayments	2	2
Total receivables and prepayments	**1,015**	**994**
Current	1,015	994
Non - current	-	-

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 amortised cost, less any allowance for Expected Credit Loss (ECLs).

AMP Life applies a simplified approach in calculating ECLs for receivables. Therefore, AMP Life does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. AMP Life has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Section 2: Investments, intangibles and working capital

2.4 Payables

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.

	2019 $m	2018 $m
Payables		
Investment related payables	431	95
Life insurance and investment contracts in process of settlement	341	302
Other payables		
- related entities	957	615
- other entities	371	367
Reinsurance payables	39	3
Total payables	**2,139**	**1,382**
Current	2,139	1,382
Non - current	-	-

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.

2019	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	5,385	5,323	11	51	5,385
Debt securities	2,554	-	2,554	-	2,554
Investments in unlisted managed investment schemes	90,103	-	89,866	237	90,103
Derivative financial assets	578	13	565	-	578
Total financial assets measured at fair value	**98,620**	**5,336**	**92,996**	**288**	**98,620**
Financial liabilities measured at fair value					
Derivative financial liabilities	229	106	123	-	229
Investment contract liabilities	71,550	-	1,484	70,066	71,550
Total financial liabilities measured at fair value	**71,779**	**106**	**1,607**	**70,066**	**71,779**

2018	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	5,199	5,127	12	60	5,199
Debt securities	2,558	-	2,558	-	2,558
Investments in unlisted managed investment schemes	85,853	-	85,692	161	85,853
Derivative financial assets	487	311	176	-	487
Total financial assets measured at fair value	**94,097**	**5,438**	**88,438**	**221**	**94,097**
Financial liabilities measured at fair value					
Borrowing from related parties	392	-	392	-	392
Derivative financial liabilities	210	106	104	-	210
Investment contract liabilities	68,627	-	1,810	66,817	68,627
Total financial liabilities measured at fair value	**69,229**	**106**	**2,306**	**66,817**	**69,229**

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:

Equity securities and listed managed investment schemes	The fair value of listed equity securities traded in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
Debt securities	The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
Unlisted managed investment schemes	The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.
Derivative financial assets and liabilities	The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices (current bid price or current offer price) at the reporting date. The fair value of financial instruments not traded in an active market (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 models use a number of inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying instruments. Some derivative contracts are significantly cash collateralised, thereby minimising both counterparty risk and Groups own non-performance risk.
Investment contract liabilities	See note 4.1.

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

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

There have been no significant transfers between Level 1 and Level 2 during the 2019 and 2018 financial years.

Level 3 fair values

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.

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 in 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.

	2019		2018	
$m	(+)	(-)	(+)	(-)
Financial assets				
Equity securities and listed managed investment schemes	3	(3)	3	(4)
Financial liabilities				
Investment contract liabilities	1	(1)	1	(1)

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:

2019	Balance at the beginning of the year $m	FX gains or losses[1] $m	Total gains/ (losses)[1] $m	Purchases deposits $m	Sales/ (with-drawals) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets classified as level 3							
Equity securities and listed managed investment schemes	60	-	(20)	11	-	51	(20)
Investments in unlisted managed investment schemes	161	-	(2)	83	(5)	237	(2)
Total financial assets	**221**	**-**	**(22)**	**94**	**(5)**	**288**	**(22)**
Liabilities							
Investment contract liabilities	66,817	2	10,252	7,044	(14,049)	70,066	10,251
Total financial liabilities	**66,817**	**2**	**10,252**	**7,044**	**(14,049)**	**70,066**	**10,251**

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

2018	Balance at the beginning of the year $m	FX gains or losses[1] $m	Total gains/ (losses)[1] $m	Purchases deposits $m	Sales/ (with-drawals) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets classified as level 3							
Equity securities and listed managed investment schemes	111	-	(31)	-	(20)	60	(28)
Debt Securities	14	-	-	-	(14)	-	-
Investments in unlisted managed investment schemes	46	-	7	115	(7)	161	9
Total financial assets	**171**	**-**	**(24)**	**115**	**(41)**	**221**	**(19)**
Liabilities							
Investment contract liabilities	73,126	13	(1,206)	7,720	(12,836)	66,817	(1,206)
Total financial liabilities	**73,126**	**13**	**(1,206)**	**7,720**	**(12,836)**	**66,817**	**(1,206)**

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

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

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.

	2019 $m	2018 $m
Issued Capital		
124,459,253 (2018: 124,459,253) ordinary shares fully paid[1]	1,168	1,168
1,317,500 (2018: 1,317,500) capital notes[2]	305	305
Total contributed equity at the end of the year	1,473	1,473

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:
- $175m of capital notes (17,500 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.
- $130m of capital notes (1,300,000 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.

Section 3: Capital structure and financial risk management

3.2 Interest-bearing liabilities

(a) Interest-bearing liabilities

	31 December 2019			31 December 2018		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Deposits	69	-	**69**	79	-	**79**
Subordinated Notes (optional quarterly redemptions)[1]	-	250	**250**	-	250	**250**
Total interest-bearing liabilities	69	250	**319**	79	250	**329**

1 The interest rate payable on the subordinated debt is BBSW3M +2.65%. The subordinated notes mature on 18 December 2023, however, subject to APRA approval, they are expected to be redeemed prior to the completion of the sale of AMP Life to Resolution.

(b) Changes in liabilities arising from financing activities

	Subordinated Notes	
	2019 $m	2018 $m
Balance at the beginning of the year	250	300
Interest accrued	10	14
Interest paid[1]	(10)	(14)
Changes from financing cash flows	-	(50)
Balance at the end of the year	**250**	**250**

1 Interest paid is included as Cash flows from operating activities in the Statement of cash flow.

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.

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 7R *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 bearing investment assets of the shareholder and statutory funds.	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. 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. Capital invested in overseas operations. Foreign exchange rate movements on specific cash flow transactions	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. 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.
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 prices.	Exposure for shareholder includes listed and unlisted shares and participation in equity unit trusts.	Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

Section 3: Capital structure and financial risk management

3.3 Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis

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

- Shows the direct impact of a reasonably possible change in market rate and is not intended to illustrate a remote, worst case stress test scenario.
- Assumes that all underlying exposures and related hedges are included and the change in variable occurs at the reporting date.
- Does not include the impact of any mitigating management actions over the period to the subsequent reporting date.

		2019		2018	
		Impact on profit after tax	Impact on equity	Impact on profit after tax	Impact on equity
		Increase (decrease)	Increase (decrease)	Increase (decrease)	Increase (decrease)
Change in variables		$m	$m	$m	$m
Interest rate risk					
Impact of a 100 basis points(bp) change in	+ 100 bp	(14)	(14)	6	6
Australian and international interest rates.	- 100 bp	2	2	(19)	(19)
Currency risk					
Impact of a 10% movement of exchange rate	10% depreciation of AUD	3	115	4	109
against the Australian dollar on currency	10% appreciation of AUD	(3)	(95)	(4)	(90)
sensitive monetary assets and liabilities.					
Equity price risk	10% increase in:				
Impact of a 10% movement in Australian and	- Australian equities	7	7	9	9
international equities. Any potential impact on	- International equities	7	7	7	7
fees from AMP Life's investments linked	10% decrease in:				
business is not included.	- Australian equities	(7)	(7)	(9)	(9)
	- International equities	(7)	(7)	(7)	(7)

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 $m	Total $m
2019					
Non-derivative financial liabilities					
Payables	2,139	-	-	-	2,139
Interest-bearing liabilities	78	277	-	-	355
Borrowings from related parties	-	-	-	-	-
Investment contract liabilities[1]	229	834	849	69,705	71,617
Total undiscounted financial liabilities	**2,446**	**1,111**	**849**	**69,705**	**74,111**
2018					
Non-derivative financial liabilities					
Payables	1,382	-	-	-	1,382
Interest-bearing liabilities	90	296	-	-	386
Borrowings from related parties	392	-	-	-	392
Investment contract liabilities[1]	258	1,021	1,092	66,466	68,837
Total undiscounted financial liabilities	**2,122**	**1,317**	**1,092**	**66,466**	**70,997**

1 Investment contract liabilities are liabilities to policyholders for investment linked business linked to the performance and value of assets that back those liabilities. If all these policyholders claimed their funds, there may be some delay in settling the liability as assets are liquidated, but the shareholder has no direct exposure to any liquidity risk.

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.	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.
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.		Responsibility of the individual investment teams. There is also a dedicated credit research team and a specific credit investment committee.

The AMP Aggregate Risk Exposures & Intra -Group Transactions and Exposures Policy sets out the assessment and determination of what constitutes credit concentration risk through the AMP Concentration Risk Standard. The Standard sets limits on each counterparty's credit rating (unless special considerations are defined). Additional limits are set for the distribution of the total shareholders portfolio by credit rating bands. Compliance with the Standards is monitored and exposures and breaches are reported to portfolio managers, senior management, Enterprise Risk 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.

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 Life, 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 $578m would be reduced by $55m to the net amount of $523m and derivative liabilities of $229m would be reduced by $55m to the net amount of $174m (2018: derivative assets of $487m would be reduced by $1m to the net amount of $486m and derivative liabilities of $210m would be reduced by $1m to the net amount of $209m).

Section 3: Capital structure and financial risk management

3.4 Other derivative information

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.

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 during 2019 also includes APRA regulated approved superannuation trustees (RSE) and companies that hold Australian Financial Services Licences (AFSL). As at 31 December 2019, AMP Life no longer holds ownership of the aforementioned entities.

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 company 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.

Section 4: Life insurance 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 element.

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

Life insurance contracts
AMP Life issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies known as discretionary participating contracts that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of 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) and the Participating Business Management Framework.

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

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

Bonus distributions to participating policyholders do not alter the amount of profit attributable to shareholders. They change the nature of the liability from unvested to vested.

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
- the profits arising from discretionary participating investment account business where 100% of investment profit is allocated to policyholders and 100% of any other profit or loss is allocated to shareholders, with the over-riding provision being that at least 80% of any profit and not more than 80% of any loss be allocated to policyholders' retained profits of the relevant statutory fund
- the underwriting profit arising in respect of participating Business Super risk business is allocated 90% to policyholders and 10% to shareholders.

Allocation of expenses within the 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 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 section 4.1.

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

Reinsurance

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

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

The present value of AMP's net contractual rights and obligations under reinsurance contracts is presented as 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 of AMP Life is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary.

Investment contract liabilities

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

Section 4: Life insurance and investment contracts

4.2 Life insurance contracts – premiums, claims, expenses and liabilities

	2019 $m	2018 $m
(a) Analysis of life insurance contract related revenue - net of reinsurance		
Life insurance contract premiums received and receivable	2,351	2,549
Less: component recognised as a change in life insurance contract liabilities	(369)	(367)
Life insurance contract premium revenue[1]	1,982	2,182
Commission received from reinsurers	262	471
Life insurance contract related revenue	**2,244**	**2,653**
Life insurance contract premiums ceded to reinsurers	(1,033)	(989)
Life insurance contract related revenue - net of reinsurance	**1,211**	**1,664**
(b) Analysis of life insurance contract claims expenses - net of reinsurance		
Total life insurance contract claims paid and payable	(3,854)	(3,412)
Less: component recognised as a change in life insurance contract liabilities	1,679	1,158
Life insurance contract claims expense	**(2,175)**	(2,254)
Life insurance claims recovered from reinsurers	512	487
Life insurance contract claims expenses - net of reinsurance	**(1,663)**	**(1,767)**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(12)	(27)
- Other expenses	(4)	(108)
Life insurance contract maintenance expenses		
- Commission	(164)	(172)
- Other expenses	(350)	(416)
Investment management expenses	(52)	(53)

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

Section 4: Life insurance and investment contracts

4.2 Life insurance contracts - premiums, claims, expenses and liabilities (continued)

	2019 $m	2018 $m
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- value of future life insurance contract benefits	14,395	14,464
- value of future expenses	3,779	4,370
- value of future premiums	(8,985)	(10,434)
Value of future profits		
- life insurance contract holder bonuses	3,420	3,136
- shareholder's profit margins	1,479	1,565
Total life insurance contract liabilities determined using the projection method	**14,088**	**13,101**
Life insurance contract liabilities determined using the accumulation method		
Best estimate liability		
- value of future life insurance contract benefits	7,029	7,951
- value of future acquisition expenses	(44)	(50)
Total life insurance contract liabilities determined using the accumulation method	**6,985**	**7,901**
Value of declared bonus	262	304
Unvested policyholder benefits liabilities[1]	2,452	2,319
Total life insurance contract liabilities net of reinsurance	**23,787**	**23,625**
Reinsurance liability - ceded life insurance contracts[2]	(1,515)	(1,452)
Reinsurance asset- ceded life insurance contracts	1,222	1,073
Total life insurance contract liabilities gross of reinsurance	**23,494**	**23,246**

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

2 Reinsurance liability - ceded life insurance contracts reflects the present value of the net obligation to transfer cashflows under the 60% quota share reinsurance arrangement with Gen Re, Munich Re and Swiss Re, in return for upfront commission received. It also reflects the reinsurance position of the surplus reinsurance arrangement with Gen Re and Swiss Re.

	2019 $m	2018 $m
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	23,246	23,675
Change in life insurance contract liabilities recognised in the Income statement	1,437	(81)
Premiums recognised as an increase in life insurance contract liabilities	369	367
Claims recognised as a decrease in life insurance contract liabilities	(1,679)	(1,158)
Change in reinsurance asset - ceded life insurance contracts	149	269
Change in reinsurance liability - ceded life insurance contracts	(63)	(2)
Foreign exchange adjustment	35	176
Total life insurance contract liabilities at the end of the period	**23,494**	**23,246**

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 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 2019 Australia %	31 December 2019 New Zealand %	31 December 2018 Australia %	31 December 2018 New Zealand %
Retail risk (other than income benefit open claims)[1]		Zero coupon government bond yield curve	0.9 - 2.2	1.1 - 2.5	1.8 - 3.0	1.7 - 3.0
Retail risk and group risk (income benefit open claims)[1]		Zero coupon government bond yield curve (including liquidity premium)	1.1 - 2.4	1.3 - 2.7	2.1 - 3.2	2.0 - 3.3
Life annuities	Non-CPI	Zero coupon government bond yield curve (including liquidity premium)	1.2 - 2.4	1.4 - 2.8	2.2 - 3.3	2.0 - 3.4
Life annuities	CPI	Commonwealth indexed bond yield curve (including liquidity premium)	-0.2 - 0.6	0.4 - 1.4	0.8 - 1.3	1.1 - 2.3

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

(b) Future maintenance and investment expenses

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

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

Section 4: Life insurance and investment contracts

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

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

The expense inflation assumptions have been set based on the inflation rates, recent expense performance, AMP Life's current plans and the terms of the relevant service company agreement, as appropriate. In addition, lower expense inflation has been assumed for Australia and New Zealand wealth protection portfolios compared to that assumed at 31 December 2018. The lower expense inflation assumptions reflect the implementation of new service company agreements, which extend fixed fee arrangements to a wider pool of business, increasing the proportion of costs that are fully variable and will run-off with policies following the closure to new business.

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

	Australia %		New Zealand %	
	CPI	Expense Inflation	CPI	Expense Inflation
31 December 2019	1.4	3.0	1.6	2.0
31 December 2018	1.6	3.0 - 8.0	1.7	2.0 - 6.0

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

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

The assumptions for future rates of discontinuance of the major classes of life insurance contracts have been reviewed. Discontinuance assumptions were changed from those assumed at 31 December 2018 for Australian retail risk and Flexible Lifetime Super, and New Zealand retail risk.

Note that the wealth protection discontinuance rate ranges are calculated based on current business mix and various assumption rating factors. Discontinuance rate for conventional products (Australia and New Zealand) are calculated based on average expected for the next five years.

	31 December 2019		31 December 2018	
Business type	Australia %	New Zealand %	Australia %	New Zealand %
Conventional	2.2 - 7.4	1.1 - 2.2	2.3 - 9.3	1.5 - 2.7
Retail risk (lump sum)	13.7 - 20.5	4.7 - 16.1	13.1 - 18.0	4.9 - 15.2
Retail risk (income benefit)	7.8 - 22.0	8.7 - 15.5	7.5 - 20.1	5.0 - 14.7
Flexible Lifetime Super (FLS) risk business	17.5 - 19.3	n/a	14.4 - 16.6	n/a

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

Section 4: Life insurance and investment contracts

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

(g) Mortality and morbidity
Standard mortality and morbidity tables, based on national or industry wide data, are used.

The following assumptions have changed from those assumed at 31 December 2018:
- An allowance for possible anti-selection on retained business for 12 months following 1 July 2019 due to the opt-in related to Protecting Your Super ("PYS") legislation;
- An allowance for additional historical claims resulting from increased member communications due to PYS;
- Australian & New Zealand retail death rates;
- Australian and New Zealand Income Protection termination rates; and
- Australian TPD rates.

The assumptions are summarised in the following table.

	Conventional - % of IA95-97	
Conventional	**Male**	**Female**
31 December 2019		
Australia	**60.8**	**60.8**
New Zealand	**73.0**	**73.0**
31 December 2018		
Australia	60.8	60.8
New Zealand	73.0	73.0

	Retail Lump Sum - % of table	
Risk Products	**Male**	**Female**
31 December 2019		
Australia[1]	**90-141**	**90-141**
New Zealand	**104 - 120**	**85 - 98**
31 December 2018		
Australia[1]	94 - 148	94 - 148
New Zealand	104 - 120	86 - 98

1 Base IA04-08 Death Without Riders table modified based on aggregated experience but with overall product specific adjustment factors (estimated methodology used).

Annuities	**Male - % of IML00***	**Female - % of IFL00***
31 December 2019		
Australia and New Zealand[1]	**95.0**	**80.0**
31 December 2018		
Australia and New Zealand[1]	95.0	80.0

1 Annuities tables modified for future mortality improvements.

Section 4: Life insurance and investment contracts

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

(g) Mortality and morbidity (continued)
Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates % of ADI 07-11	Termination rates (ultimate) % of ADI 07-11
31 December 2019		
Australia	**45 - 179**	**53 - 89**
New Zealand	**83 - 149**	**69 - 144**
31 December 2018		
Australia	45 - 179	53 - 80
New Zealand	83 - 149	82 - 105

Retail Lump Sum	Male % of IA04-08	Female % of IA04-08
31 December 2019		
Australia TPD[1]	**132 - 277**	**150 - 351**
Australia Trauma[2]	**102 - 193**	**102 - 193**
New Zealand TPD[1]	**120**	**120**
New Zealand Trauma[2]	**110 - 114**	**110 - 114**
31 December 2018		
Australia TPD[1]	132 - 241	150 - 305
Australia Trauma[2]	102 - 193	102 - 193
New Zealand TPD[1]	120	120
New Zealand Trauma[2]	110 - 114	110 - 114

1 Base IA04-08 TPD table modified based on our aggregated experience but with overall product specific adjustment factors (estimated methodology used).
2 Base IA04-08 Trauma table modified based on our aggregated experience but with overall product specific adjustment factors (estimated methodology used).

The actuarial tables used were as follows:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995–1997. The table has been modified to allow for future mortality improvement.
IML00*/IFL00*	IML00 and IFL00 are mortality tables developed by the Institute and Faculty of Actuaries based on United Kingdom annuitant lives experience from 1999-2002. The tables refer to male and female lives respectively and incorporate factors that allow for mortality improvements since the date of the investigation. IML00* and IFL00* are these published tables amended for some specific AMP Life experience.
IA04-08 DTH	This was published by the Institute of Actuaries of Australia under the name A graduation of the 2004-2008 Lump Sum Investigation Data. The table has been modified based on aggregated experience with overall product specific adjustment factors.
IA04-08 TPD	This is the TPD graduation published in the same paper as above.
IA04-08 Trauma	This is the Trauma graduation published in the same paper as above.
ADI 07-11	A disability table developed by KPMG at the request of the Financial Services Council (FSC) based on Australian disability income experience for the period 2007-2011. This table has been adjusted 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 (e.g. 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 2019						
Australia	1.4	4.5	3.5	2.5	0.5	(0.5)
New Zealand	1.7	4.5	3.5	2.5	0.4	(0.5)
31 December 2018						
Australia	2.3	4.5	3.5	2.5	0.6	(0.5)
New Zealand	2.4	4.5	3.5	2.5	0.5	(0.5)

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 2019				
Australia	29	14	39	18
New Zealand	35	17	39	9
31 December 2018				
Australia	28	14	39	19
New Zealand	35	17	38	10

1 The asset mix in the table above includes both conventional and investment account business for AMP Life. As described in note 4.1, 100% of investment profits on discretionary participating investment account business are allocated to policyholders.

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

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.

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 for AMP Life (31 December 2018 in parentheses).

Reversionary bonus	Bonus on sum insured %	Bonus on existing bonuses %
Australia	0.4 - 1.0 (0.4 - 1.0)	0.8 - 1.5 (0.8 - 1.5)
New Zealand	0.5 - 1.6 (0.7 - 1.0)	0.5 - 1.6 (0.7 - 1.1)

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

Crediting rates (investment account)	%
Australia	1.8 - 3.3 (0.6 - 3.3)
New Zealand	2.1 - 2.5 (1.7 - 2.3)

(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 2018 to 31 December 2019 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 shareholder's profit and equity[3] $m
Non-market related changes to discount rates	1	-	-
Mortality and morbidity	(15)	149	(104)
Discontinuance rates	(75)	59	(42)
Maintenance expenses	162	85	(36)
Other assumptions[1]	(53)	(35)	24

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 non-participating related product group, the changes in assumptions at the end of a period eliminate any future profit margins for the related product group, and results in negative future profit margins, this negative balance for all forecasted future periods is recognised as a loss in the current period. If the changes in assumptions in a period are favourable for a product group currently in loss recognition, then the previously recognised losses are reversed in the period.

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk

(a) Life insurance risk

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

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

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are generally underwritten individually on their merits. Individual policies which are transferred from a group scheme are generally issued without underwriting. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

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

AMP Life 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; and
- reduce the amount of capital required to support the business.

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

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk (continued)

(b) Key terms and conditions of life insurance contracts

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

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

Section 4: Life insurance and investment contracts

4.4 Life insurance contracts - risk (continued)

(c) Insurance risk sensitivity analysis – life insurance contracts

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

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

		Change in life insurance contract liabilities		Change in the shareholder's profit after income tax and equity	
Variable	Change in variable	Gross of reinsurance $m	Net of reinsurance $m	Gross of reinsurance $m	Net of reinsurance $m
Mortality	10% increase in mortality rates	51	19	(37)	(13)
Annuitant mortality	50% increase in the rate of mortality improvement	15	15	(11)	(11)
Morbidity - lump sum disablement	20% increase in lump sum disablement rates	39	16	(28)	(11)
Morbidity - disability income	10% increase in incidence rates	220	91	(154)	(64)
Morbidity - disability income	10% decrease in termination rates	385	175	(270)	(122)
Discontinuance rates	10% increase in discontinuance rates	103	28	(74)	(20)
Maintenance expenses	10% increase in maintenance expenses	35	35	(25)	(25)

(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
2019	1,589	3,628	10,336	15,553
2018	1,264	3,039	8,243	12,546

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts

(a) Analysis of life insurance and investment contract profit

	2019 $m	2018 $m
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	327	437
- Losses arising from difference between actual and assumed experience	(26)	(86)
- Losses arising from changes in assumptions	(135)	(29)
- Capitalised losses	(166)	(174)
Profit related to life insurance and investment contract liabilities	**-**	**148**
Attributable to:		
- Life insurance contracts	(87)	(31)
- Investment contracts	87	179
Profit related to life insurance and investment contract liabilities	**-**	**148**
Investment earnings on assets in excess of life insurance and investment contract liabilities	**80**	**38**

(b) Restrictions on assets in statutory funds

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

AMP Life has three statutory funds as set out below:

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

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

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

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(c) Capital guarantees

	2019 $m	2018 $m
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	13,327	14,152
Investment linked contracts		
- Amount of the liabilities subject to investment performance guarantees	762	847
Other life insurance and investment contracts with a guaranteed termination value		
- Current termination value	68	127

(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 maintains a target surplus providing an additional capital buffer against adverse events. The Company uses internal capital models to determine target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The excess of the company’s capital base over the PCA as at 31 December 2019 was $1,480m (2018: $1,408m)

The Appointed Actuary of AMP Life has confirmed that the capital base of each life statutory fund and shareholders’ fund have exceeded PCA at all times during 2019 and 2018.

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(d) Capital requirements (continued)

2019		No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Capital Base						
Net assets as per Life Insurance Act	A	1,841	221	6	271	2,339
- Common equity Tier 1 Capital		1,841	221	6	(34)	2,034
- Additional Tier 1 Capital		n/a	n/a	n/a	305	305
Total regulatory adjustments to net assets	B	133	(35)	-	(65)	33
- Total regulatory adjustments to Common equity Tier 1 Capital		133	(35)	-	(65)	33
- Total regulatory adjustments to Additional Tier 1 Capital		n/a	n/a	n/a	-	-
Tier 2 Capital	C	176	24	-	-	200
Total regulatory adjustments to Tier 2 Capital	D	-	-	-	-	-
Total capital base	E(A+B+C+D)	2,150	210	6	206	2,572
Prescribed capital						
Insurance risk charge		410	-	-	-	410
Asset risk charge		529	2	1	2	534
Asset concentration risk charge		-	-	-	-	-
Operational risk charge		129	174	2	-	305
Less aggregation benefit		(206)	-	-	-	(206)
Combined stress scenario adjustment		49	-	-	-	49
Total Prescribed capital Amount (PCA)	F	911	176	3	2	1,092
Capital adequacy multiple	E/F	236%	119%	200%	10300%	236%

2018		No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Capital Base						
Net assets as per Life Insurance Act	A	1,871	196	8	637	2,712
- Common equity Tier 1 Capital		1,871	196	8	332	2,407
- Additional Tier 1 Capital		n/a	n/a	n/a	305	305
Total regulatory adjustments to net assets	B	(116)	(10)	-	(248)	(374)
- Total regulatory adjustments to Common equity Tier 1 Capital		(116)	(10)	-	(248)	(374)
- Total regulatory adjustments to Additional Tier 1 Capital		n/a	n/a	n/a	-	-
Tier 2 Capital	C	220	30	-	-	250
Total regulatory adjustments to Tier 2 Capital	D	-	-	-	-	-
Total capital base	E(A+B+C+D)	1,975	216	8	389	2,588
Prescribed capital						
Insurance risk charge		359	-	-	-	359
Asset risk charge		511	8	1	20	540
Asset concentration risk charge		-	-	-	2	2
Operational risk charge		127	164	2	-	293
Less aggregation benefit		(189)	-	-	-	(189)
Combined stress scenario adjustment		171	-	-	4	175
Total Prescribed capital Amount (PCA)	F	979	172	3	26	1,180
Capital adequacy multiple	E/F	202%	126%	267%	1496%	219%

Section 4: Life insurance and investment contracts

4.5 Other disclosure - life insurance contracts and investment contracts (continued)

(e) Actuarial information
Mr Greg Bird, the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the financial report and in the tables in this note and notes 4.2- 4.5.

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

(f) Disaggregated information
(i) Statement of comprehensive income by statutory fund and shareholder's' fund

2019	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,211	-	-	-	1,211
Fee revenue	42	755	11	70	878
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss	2,915	11,499	147	19	14,580
Share of profit of associates accounted for using the equity method	24	-	-	-	24
Life insurance contract claims expenses - net of reinsurance	(1,663)	-	-	-	(1,663)
Goodw ill impairment	-	-	-	(65)	(65)
Operating expenses	(618)	(604)	(5)	(19)	(1,246)
Finance costs	(17)	(2)	-	-	(19)
Change in policyholder liabilities					
- Life insurance contracts	(1,437)	-	-	-	(1,437)
- Investment contracts	(88)	(10,933)	(105)	-	(11,126)
Income tax expense	(385)	(627)	(40)	(23)	(1,075)
Profit (loss) for the year	**(16)**	**88**	**8**	**(18)**	**62**

2018	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,664	-	-	-	1,664
Fee revenue	53	917	12	62	1,044
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss	949	(624)	(5)	25	345
Share of profit of associates accounted for using the equity method	10	-	-	-	10
Life insurance contract claims expenses - net of reinsurance	(1,767)	-	-	-	(1,767)
Goodw ill impairment	-	-	-	(387)	(387)
Operating expenses	(809)	(678)	(6)	(9)	(1,502)
Finance costs	(16)	(4)	-	-	(20)
Change in policyholder liabilities					
- Life insurance contracts	81	-	-	-	81
- Investment contracts	(78)	166	1	-	89
Income tax expense	(85)	400	5	(16)	304
Profit (loss) for the year	**2**	**177**	**7**	**(325)**	**(139)**

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 shareholder's fund

2019	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
Assets						
Investments in financial assets	27,030	70,381	921	288	-	98,620
Other assets	4,880	531	2	299	(439)	5,273
Total assets of policyholders and the shareholder	**31,910**	**70,912**	**923**	**587**	**(439)**	**103,893**
Liabilities						
Life insurance contract liabilities[1]	23,494	-	-	-	-	23,494
Investment contract liabilities[1]	1,845	68,889	816	-	-	71,550
Other liabilities	4,730	1,801	102	316	(439)	6,510
Total liabilities of policyholders and the shareholder	**30,069**	**70,690**	**918**	**316**	**(439)**	**101,554**
Net assets	**1,841**	**222**	**5**	**271**	**-**	**2,339**
Equity						
Contributed equity	1,093	173	7	200	-	1,473
Reserves	128	-	-	(141)	-	(13)
Retained earnings	620	49	(2)	212	-	879
Total equity	**1,841**	**222**	**5**	**271**	**-**	**2,339**

2018	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
Assets						
Investments in financial assets	26,201	66,842	847	391	-	94,281
Other assets	5,148	342	3	360	(322)	5,531
Total assets of policyholders and the shareholder	**31,349**	**67,184**	**850**	**751**	**(322)**	**99,812**
Liabilities						
Life insurance contract liabilities[1]	23,246	-	-	-	-	23,246
Investment contract liabilities[1]	2,173	65,685	769	-	-	68,627
Other liabilities	4,059	1,303	73	114	(322)	5,227
Total liabilities of policyholders and the shareholder	**29,478**	**66,988**	**842**	**114**	**(322)**	**97,100**
Net assets	**1,871**	**196**	**8**	**637**	**-**	**2,712**
Equity						
Contributed equity	1,093	173	7	200	-	1,473
Reserves	126	-	-	(142)	-	(16)
Retained earnings	652	23	1	579	-	1,255
Total equity	**1,871**	**196**	**8**	**637**	**-**	**2,712**

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

2019	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening retained earnings	652	23	1	579	1,255
Net profit (loss)	(16)	88	8	(18)	62
Transfers between statutory and shareholder's funds	(16)	(62)	(11)	89	-
Dividends and distributions paid	-	-	-	(438)	(438)
Closing retained earnings	**620**	**49**	**(2)**	**212**	**879**

2018	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening retained earnings	810	13	1	1,582	2,406
Net profit (loss)	2	177	7	(325)	(139)
Transfers between statutory and shareholder's funds	(160)	(167)	(7)	334	-
Dividends and distributions paid	-	-	-	(1,012)	(1,012)
Closing retained earnings	**652**	**23**	**1**	**579**	**1,255**

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

2019	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening contributed equity	1,093	173	7	200	1,473
Closing contributed equity	**1,093**	**173**	**7**	**200**	**1,473**

2018	No 1 Statutory Fund $m	No 2 Statutory Fund $m	No 3 Statutory Fund $m	Share-holder's Fund $m	Total $m
Opening contributed equity	1,093	173	7	200	1,473
Closing contributed equity	**1,093**	**173**	**7**	**200**	**1,473**

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

2019	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,211	-	1,211	-	1,211
Fee revenue	42	766	808	70	878
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss	2,915	11,646	14,561	19	14,580
Share of profit of associates accounted for using the equity method	24	-	24	-	24
Life insurance contract claims expenses - net of reinsurance	(1,663)	-	(1,663)	-	(1,663)
Goodwill impairment	-	-	-	(65)	(65)
Operating expenses	(618)	(609)	(1,227)	(19)	(1,246)
Finance costs	(17)	(2)	(19)	-	(19)
Change in policyholder liabilities					
- Life insurance contracts	(1,437)	-	(1,437)	-	(1,437)
- Investment contracts	(88)	(11,038)	(11,126)	-	(11,126)
Income tax expense	(385)	(667)	(1,052)	(23)	(1,075)
Profit (loss) for the year	**(16)**	**96**	**80**	**(18)**	**62**

2018	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Total $m
Income and expenses of policyholders and the shareholder					
Life insurance contract related revenue - net of reinsurance	1,664	-	1,664	-	1,664
Fee revenue	53	929	982	62	1,044
Interest income, dividends and distributions and net gains on financial assets and liabilities at fair value through profit or loss	949	(629)	320	25	345
Share of profit of associates accounted for using the equity method	10	-	10	-	10
Life insurance contract claims expenses - net of reinsurance	(1,767)	-	(1,767)	-	(1,767)
Goodwill impairment	-	-	-	(387)	(387)
Operating expenses	(809)	(684)	(1,493)	(9)	(1,502)
Finance costs	(16)	(4)	(20)	-	(20)
Change in policyholder liabilities					
- Life insurance contracts	81	-	81	-	81
- Investment contracts	(78)	167	89	-	89
Income tax expense	(85)	405	320	(16)	304
Profit (loss) for the year	**2**	**184**	**186**	**(325)**	**(139)**

1 The " 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 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

2019	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Elimina-tions $m	Total $m
Assets						
Investments in financial assets	27,030	71,302	98,332	288	-	98,620
Other assets	4,880	533	5,413	299	(439)	5,273
Total assets of policyholders and the shareholder	**31,910**	**71,835**	**103,745**	**587**	**(439)**	**103,893**
Liabilities						
Life insurance contract liabilities	23,494	-	23,494	-	-	23,494
Investment contract liabilities	1,845	69,705	71,550	-	-	71,550
Other liabilities	4,730	1,903	6,633	316	(439)	6,510
Total liabilities of policyholders and the shareholder	**30,069**	**71,608**	**101,677**	**316**	**(439)**	**101,554**
Net assets	**1,841**	**227**	**2,068**	**271**	**-**	**2,339**
Equity						
Contributed equity	1,093	180	1,273	200	-	1,473
Reserves	128	-	128	(141)	-	(13)
Retained earnings	620	47	667	212	-	879
Total equity	**1,841**	**227**	**2,068**	**271**	**-**	**2,339**

2018	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Share-holder's Fund $m	Elimina-tions $m	Total $m
Assets						
Investments in financial assets	26,201	67,689	93,890	391	-	94,281
Other assets	5,148	345	5,493	360	(322)	5,531
Total assets of policyholders and the shareholder	**31,349**	**68,034**	**99,383**	**751**	**(322)**	**99,812**
Liabilities						
Life insurance contract liabilities	23,246	-	23,246	-	-	23,246
Investment contract liabilities	2,173	66,454	68,627	-	-	68,627
Other liabilities	4,059	1,376	5,435	114	(322)	5,227
Total liabilities of policyholders and the shareholder	**29,478**	**67,830**	**97,308**	**114**	**(322)**	**97,100**
Net assets	**1,871**	**204**	**2,075**	**637**	**-**	**2,712**
Equity						
Contributed equity	1,093	180	1,273	200	-	1,473
Reserves	126	-	126	(142)	-	(16)
Retained earnings	652	24	676	579	-	1,255
Total equity	**1,871**	**204**	**2,075**	**637**	**-**	**2,712**

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

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

2019	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Shareholder's Fund $m	Total $m
Opening retained earnings	652	24	676	579	1,255
Net profit (loss)	(16)	96	80	(18)	62
Transfers between statutory and shareholder's funds	(16)	(73)	(89)	89	-
Dividends and distributions paid	-	-	-	(438)	(438)
Closing retained earnings	**620**	**47**	**667**	**212**	**879**

2018	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Shareholder's Fund $m	Total $m
Opening retained earnings	810	14	824	1,582	2,406
Net profit (loss)	2	184	186	(325)	(139)
Transfers between statutory and shareholder's funds	(160)	(174)	(334)	334	-
Dividends and distributions paid	-	-	-	(1,012)	(1,012)
Closing retained earnings	**652**	**24**	**676**	**579**	**1,255**

1 The " 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

2019	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Shareholder's Fund $m	Total $m
Opening contributed equity	1,093	180	1,273	200	1,473
Closing contributed equity	**1,093**	**180**	**1,273**	**200**	**1,473**

2018	Non-Investment Linked[1] $m	Investment Linked $m	Total Statutory Funds $m	Shareholder's Fund $m	Total $m
Opening contributed equity	1,093	180	1,273	200	1,473
Closing contributed equity	**1,093**	**180**	**1,273**	**200**	**1,473**

1 The " 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

(a) Significant investments in controlled operating entities

Investments in controlled entities at costs represents the shareholder fund's investments in controlled entities. During the period these controlled entities investments have been transferred to other entities in the AMP Group in order to prepare for the sale of AMP Life.

(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.

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. During the period, the controlled entities investments in the Australian business SF1 have been transferred to other entities in the AMP Group in order to prepare for the sale of AMP Life.

Section 5: Related party disclosures

5.3 Investments in associates

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

	Principal activities	Place of business	Ownership interest 2019 %	Ownership interest 2018 %	Carrying amount 2019 $m	Carrying amount 2018 $m
China Life Pension Company[1,2]	Pension company	China	19.99	19.99	325	305
Total investments in associate accounted for using the equity method					**325**	**305**

1 The sale of AMP Life's interest in China Life Pendsion Company ("CLPC") to AMP remained subject to approval by China Banking and Insurance Regulatory Commission ("CBIRC") at 31 December 2019. CBIRC approval was obtained on 15 January 2020 and accordingly subsequent event disclosure has been included in Note 6.5 Events occurring after reporting date.

2 AMP Life has significant influence through representation on the entity's Board.

(b) Investments in significant associate 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 associate
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.

Section 5: Related party disclosures

5.4 Key management personnel

(a) Compensation to key management personnel[1]

The following table provides aggregate details of the compensation of key management personnel of the Company. The remuneration is paid by a related company, AMP Life Services Limited.

	2019 $	2018 $
Short term benefits	2,693,587	3,854,087
Post-employment benefits	121,244	134,045
Share based payments[2]	641,428	(1,799,571)
Other long-term benefits[3]	13,112	(116,226)
Termination Benefits	-	1,882,252
Total	**3,469,371**	**3,954,587**

1. For key management personnel of the company who are also key management personnel of AMP Limited, the amounts include compensation from AMP Limited.
2. The negative balance for 2018 represents share based payments expense, offset by reversals booked in 2018 where awards were forfeited or where the performance conditions were not met.
3. Other long-term benefits for 2018 includes reversals of long-service-leave provisions where individuals are no longer employees of AMP and their respective length of service requirements have not been met.

(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 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

5.5 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 .

Fellow subsidiaries of AMP Limited		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
Advice First Ltd	2019	-	-	-	-
	2018	-	-	3,536	-
AMP Advice Holdings Pty Ltd	2019	-	-	-	2,838
	2018	-	-	-	16,088
AMP Bank Limited	2019	30,330	-	1,697,179	-
	2018	40,811	-	2,009,265	-
AMP Capital Funds Management Limited	2019	2,240	-	-	-
	2018	2,254	-	-	-
AMP Capital Investors Limited	2019	-	232,530	-	45,924
	2018	-	242,333	-	4,551
AMP Direct Pty Limited	2019	-	2,005	-	-
	2018	-	2,791	-	-
AMP Financial Planning Pty Limited	2019	-	186,195	24,920	-
	2018	-	216,700	18,818	-
AMP Limited	2019	-	10,353	-	576,567
	2018	-	13,686	-	250,000
AMP Planner Register Company Pty Limited	2019	-	-	-	-
	2018	-	-	-	2,814
AMP Services Limited	2019	-	540,135	-	7,542
	2018	-	692,354	-	2,747
AMP Services (NZ) Limited	2019	-	51,875	-	-
	2018	-	64,878	-	1,972
AMP Superannuation Limited	2019	-	4,410	-	
	2018	-	5,236	-	
Charter Financial Planning Ltd	2019	-	38,568	-	-
	2018	-	43,203	-	-
Hillross Financial Service	2019	-	12,996	8,524	-
	2018	-	14,951	4,505	-
IPAC Asset Management Ltd	2019	4,791	-	2,572	-
	2018	4,696	-	2,063	-
NMMT Limited	2019	-	-	30,770	-
	2018	-	-	22,848	-
National Mutual Funds Management Limited	2019	-	13,833	-	3,640
	2018	-	14,105	-	3,489
The National Mutual Life Association of Australasia Limited	2019	-	-	50,547	-
	2018	-	-	51,274	-

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

	2019 $m	2018 $m
Profit / (net loss) for the year	62	(139)
Depreciation of operating assets	-	11
Amortisation and impairment of intangibles	65	387
Investment gains and losses	(9,797)	5,540
Dividend and distribution income reinvested	(3,974)	(5,063)
Increase in receivables and other assets	(179)	(331)
Increase / (decrease) in net policy liabilities	3,234	(6,935)
Increase / (decrease) in income tax balances	708	(694)
Increase in other payables and provisions	92	148
Cash flows used in operating activities	**(9,789)**	**(7,076)**

(b) Reconciliation of cash

	2019 $m	2019 $m
Cash and cash equivalents	1,895	2,410
Short term bills and notes (included in Debt securities)	23	11
Cash and cash equivalents for the purposes of the Statement of cash flows	**1,918**	**2,421**

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 equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

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.

A contingent liability is disclosed where a legal or constructive obligation is possible, but not probable, or where the obligation is probable, but the financial impact of the event is unable to be reliably estimated.

Superannuation class actions
During May and June 2019, certain subsidiaries of AMP Limited including AMP Life were served with two class actions in the Federal Court of Australia. The first of those class actions relates to the fees charged to members of certain of AMP superannuation funds. The second of those actions relate to the fees charged to members, and interest rates received and fees charged on cash-only fund options. The two proceedings were brought on behalf of certain superannuation customers and their beneficiaries. Subsequently, the Federal Court ordered that the two proceedings be consolidated into one class action, a consolidated claim was filed and defences were filed on behalf of the respondent AMP Limited-subsidiaries. The claims are yet to be quantified and participation has not been determined. Currently, it is not possible to determine the ultimate impact of these claims, if any, upon AMP Life. The proceedings are being vigorously defended.

6.3 Auditors' remuneration

	2019 $'000	2018 $'000
Audit services for AMP Life Limited		
Audit of subsidiary financial statements	700	536
Other audit services[1]	88	87
Total audit service fees	**788**	**623**
Non-audit services		
Other non-audit services[1]	-	214
Total non-audit services fees	**-**	**214**
Total amounts received or due and receivable by the Auditors	**788**	**837**

1 No non-audit services for FY2019. In 2018, non-audit services were in relation to AASB 17 transition support.

Section 6: Other disclosures

6.4 New accounting standards

a) New and amended accounting standards adopted by AMP Life

A number of new accounting standards and amendments have been adopted effective 1 January 2019. 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

AASB 17 Insurance Contracts
AASB 17 Insurance Contracts (AASB 17) was released in 2017 and, as currently issued, is mandatory for adoption by AMP Life from 1 January 2021. The new standard introduces significant changes to accounting for life insurance contracts. The changes impact all of AMP Life's business apart from certain investment linked contracts which will continue to be accounted for as financial instruments.

The AASB 17 requirements affect recognition, measurement, presentation and disclosure relating to insurance contracts. The new standard, of itself, does not change the underlying economics or cash flows of the life insurance business. However, there will be significant changes on the measurement of insurance contract liabilities including the amount of deferred acquisition costs and the profit emergence profiles from life insurance contracts.

Since the standard was introduced, various implementation issues have been raised by stakeholders and the International Accounting Standards Board (IASB) is currently considering certain targeted amendments to the standard. The IASB propose to announce resolution of any amendments later in 2020.

One of the proposed changes is the deferral of the effective date for adoption of the new standard. Subject to the outcome of the IASB's process, the new effective date is proposed for financial reporting periods beginning on 1 January 2022. Previous period comparatives would be restated based on restated insurance contract liabilities at 1 January 2021.

In addition to the financial reporting impacts, regulators are considering their response to the new standard which may lead to changes in the determination of capital requirements, income tax and prudential reporting.

Due to the complexities of the requirements, evolving interpretations and the potential changes to the original standard, it is not yet practicable to quantify the financial impact on AMP Life. In some cases, the final impact of the new requirements will not be determined until any amendments, interpretations and regulatory responses to the new standard are determined. AMP Life is continuing to develop its implementation plans for the adoption of AASB 17.

6.5 Events occurring after reporting date

AMP Life entered into a Sale purchase agreement with AMP Limited in December 2018 for the sale of its 19.99% interest in China Life Pension Company Limited (CLPC) which was subject to China Banking and Insurance Regulatory Commission (CBIRC) approval.

CBIRC has approved sale of AMP Life's interest in CLPC on 15 January 2020, additional steps are currently underway in order to satisfy other required conditions to close the sale transaction.

Upon completion of the sale transaction, the financial effects will be reflected in the accounts as following:

	2019 $m
Details of the sale of the investment in associate	
Cash consideration received	325
Carrying amount of investment in associate	(325)
Gain/(loss) on sale of investment in associate	-
Reclassification of foreign currency translation and cashflow reserve	30
Income tax expense on gain[1]	-
Gain on sale after income tax	**30**

1. Under the Australian dividend participation exemption, dividend income and capital gains by an Australian resident company carrying business in foreign company and holding participation interest of at least 10% (directly and indirectly) is considered tax exempt.

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 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.

Directors' declaration

for the year ended 31 December 2019

In accordance with a resolution of the directors of AMP Life Limited, for 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 2019 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 2019 include an explicit and unreserved statement of compliance with the International Financial Reporting Standards.

Trevor Matthews
Chairman

Megan Beer
Chief Executive Officer

Sydney, 12 February 2020

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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 2019, 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 the Company 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 2019 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
12 February 2020