AMP Group Finance Services Limited

ABN 95 084 247 914

Directors' report and Financial report for the year ended 31 December 2013

AMP Group Finance Services Limited

Directors' report

for the year ended 31 December 2013

Your directors present their report of AMP Group Finance Services Limited ("the Company") for the year ended 31 December 2013.

Directors

The directors of the Company during the year ended 31 December 2013 and up to the date of this report are shown below.

Colin Storrie	(Chairman)
David Rowe	
Leanne Ward	(Appointed 18 November 2013)
Simon Hoole	(Resigned 18 November 2013)

Operating and financial review

Principal activities

The Company is a wholly owned entity in the AMP Limited group (AMP). The principal activity of the Company during the year was to operate as a financing entity within AMP. There have been no significant changes in the nature of these activities during the year.

Review of operations and results

The result for the year ended 31 December 2013 was a net loss after tax of $1.5m (2012: profit after tax of $2.4m).

Strategies, prospects and key risks

The Company's strategy is to continue to operate as a financing entity within AMP by borrowing from external parties, and lending the borrowed funds for use by other entities within AMP. Under the terms and conditions of the lending, the Company charges the interest and other costs on virtually the same terms as those applying to the external borrowings.

The key risk which may impact the Company's business strategies and prospects for future financial years is that the Company is unable to receive income or the repayment of loans from the other entities in AMP. Consequently, the Company's ability to pay interest, and to service and repay its debt obligations may be materially and adversely impaired. The ability of entities in AMP to repay the Company may be limited by various regulatory, contractual, legal, tax and other constraints.

AMP Group Holdings Limited (AMPGH) acts as guarantor for major external debt issues by entities in AMP, including those issued by the Company. AMPGH has entered into a Deed of Financial Support whereby AMPGH will provide financial support to the Company on the terms set out in the Deed to ensure that the Company receives full repayment of the loans receivable from entities within AMP.

AMPGH is reliant on the performance and financial position of the regulated business and entities making up the AMPGH group.

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

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

AMP serves customers in Australia and New Zealand, as well as Asia, Europe, Middle East and North America. It has more than 5,700 employees, 850,000 shareholders and $197 billion of assets under management.

AMP provides customers in Australia and New Zealand with financial advice, superannuation, retirement income and other investment products for individuals. It also provides superannuation services for businesses, income protection, disability and life insurance and selected banking products. AMP financial advisers are AMP's primary means of connecting with customers and AMP now has 4,286 aligned and employed financial advisers in Australia and New Zealand, as well as extensive relationships with independent financial advisers.

AMP's business consists of AMP Financial Services which includes Australian wealth management, AMP Bank, Australian wealth protection, Australian mature and New Zealand and AMP Capital.

Australian wealth management (Wealth Management) provides customers with superannuation, retirement income, investment, self-managed superannuation fund (SMSF) administration and financial planning services (through aligned and owned advice businesses).

AMP Bank is an Australian retail bank offering residential mortgages, deposits, transaction banking and SMSF products with around 100,000 customers. It also has a portfolio of financial planning practice finance loans. The Bank distributes through brokers, AMP planners, and direct to retail customers via phone and internet banking.

Australian wealth protection (Wealth Protection) comprises individual and group term, disability and income protection insurance products. These products can be bundled with a superannuation product or held independently.

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

New Zealand (NZ) provides tailored financial products and solutions through a network of quality financial advisers. NZ's risk business is the second largest by market share and is complemented by the largest wealth management business and the largest network of advisers in the country.

AMP Capital is a diversified investment manager, managing investments across major asset classes including shares, fixed interest, infrastructure, property, diversified funds, multi-manager and multi-asset funds. Since 1 March 2012, Mitsubishi UFJ Trust and Banking Corporation (MUTB) has held a 15 per cent ownership interest in AMP Capital.

AMP strategies and prospects[1, 2]

AMP's increased size and scale as a result of its merger with AXA mean AMP is well placed to capitalise on market developments and changes in consumer behaviour through investment in growth areas and continuing focus on cost efficiency.

During the year, AMP announced a strategic intent to better deliver on its promise to help people own tomorrow. AMP will pursue four strategic priorities to achieve this, being:

1- Prioritise investments in the $2.2 trillion[3] Australian wealth management market.
AMP is committed to leveraging its current leading positions in a market that is projected to double by 2022. AMP's leading positions include:

- No. 1 in retail superannuation and pensions with 19.2 per cent market share[4].
- No. 1 in individual risk insurance with 18.4 per cent market share[5].
- No. 1 in financial advice with 19.7 per cent market share[6].

2- Transform the core Australian business to be more relevant to customers.
AMP has embarked on a program to increase the scale and pace of change in its Australian business to better respond to changing customer demands. Both customers and shareholders will be beneficiaries of this reshaping of the Australian business.

AMP is investing significantly in its ability to better understand and anticipate customer needs, with the aim of

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[1] Forward looking statements in the strategies and prospects section of the Directors' Report are based on management's current views and assumptions and involve known and unknown risks and uncertainties, many of which are beyond AMP's control and could cause actual results, performance or events to differ materially from those expressed. These forward looking statements are not guarantees or representations of future performance, and should not be relied upon.
[2] AMP does not produce a profit forecast as this is driven by market movements which cannot be predicted. However, AMP does provide forward looking guidance on certain business outcomes.
[3] ABS- Managed Funds Industry in Australia - September 2013.
[4] DEXXAR projections - May 2013.
[5] Plan for Life - September 2013.
[6] Money Management – July 2013.

ensuring that the products and services it takes to market are highly targeted and lead to an increased share-of-wallet and enduring customer loyalty.

AMP's approach to transforming the Australian business is to segment customers by life stage and, using new analytical capabilities, digital channels and advice propositions, determine the best products and services for each segment, and bring them to market quickly via a leaner, more agile operating model.

In 2013, AMP began to invest in the following transformation initiatives:

- a simplified management, organisation and governance structure
- the first phase of a mobile platform, including mobile apps for iOS and Android, the Evolve app to simplify the advice process, development of a tablet app for 2014 and improved online transactional capabilities
- advice prototypes to broaden the way advice is delivered to customers, including a new Hillross branded advice model
- multi-asset fund consolidation, and
- re-engineering its wealth protection solutions.

In addition to investing in transforming the Australian business, AMP continues to invest in other areas with strong potential for profitable growth, including its SMSF business, the adviser network, the North platform and AMP Bank.

3- Reduce costs by investing in initiatives that matter most to customers and will deliver profitable growth.

In 2013 AMP put in place a three-year business efficiency program to redirect investment to areas most important to its customers, and to reduce the cost base. AMP expects the program to deliver $20 million in pre-tax recurring run cost savings by the end of 2016 for a one-off investment of $320 million pre-tax over three years. The recurring cost savings are estimated to be 80 per cent controllable and 20 per cent variable.

To deliver the targeted savings, initiatives underway included:

- a supply chain review, including a review of the asset management supply chain
- redesign of some of the non-customer facing function to drive efficiency
- automation and outsourcing office processes, and
- activities to improve, modernise and reduce the cost of core IT infrastructure.

The 2014 underlying controllable costs are expected to remain close to 2013 actuals. This is due to a significant reduction in costs from the business efficiency program offsetting underlying costs growth. Total controllable costs for 2014 are expected to increase by around 1.5 per cent from 2013 due to a change in government policy restricting research and development credits and anticipated adverse NZ foreign exchange rate movements. Any outperformance in cost savings from the business efficiency program are likely to be directed to further investment in customer and growth initiatives.

4- Invest selectively in Asia and internationally through AMP Capital.

A core part of AMP's strategy is to invest selectively in Asia and more broadly through AMP Capital. AMP is doing this through strong distribution partnerships in China and Japan, broadening the global pension fund client base and strengthening its capabilities in property and infrastructure.

At 31 December 2013, AMP Capital's business alliance with MUTB has three retail funds and two institutional funds in the market with AUM of $576 million. In addition, the Infrastructure Debt Fund No. II attracted commitments from 29 Japanese institutional clients through exclusive distribution under the alliance in Japan.

In 2013, AMP Capital established a joint venture funds management company in China with China Life Asset Management Company, called China Life AMP Asset Management Company Ltd. In January 2014 the China Life AMP Money Market Fund raised $2.2 billion during its initial public offer period.

AMP Capital's strength in infrastructure and property is also growing. AMP Capital has a $5 billion long-term property development pipeline across shopping centre, office and industrial sectors, this includes the redevelopment of Macquarie and Pacific Fair shopping centres.

Strategies and prospects by business segment[7]

Wealth Management

Wealth Management's key priorities are to:

- build a stronger, more customer centric business whilst remaining vigilant on cost control
- improve the quality of the advice experience and develop complementary advice channels
- implement a comprehensive customer and product strategy which accounts for the new regulatory environment
- improve adviser productivity, and
- develop a strong SMSF capability.

Since 2011, AMP has guided to average annual margin compression on investment related revenue to AUM of 3.5 to 4.5 per cent per annum over the MySuper implementation period to 2017. Average compression since guidance was initiated has been 3.5 per cent. As MySuper plan transitions have now commenced, average annual compression is expected to be around the higher end of the range through to 2017.

Wealth Protection

In 2013, AMP began to undertake wide-reaching actions driven by a new executive team to improve lapses and claims experience over the short and medium terms. Actions include:

- increasing the size of the claims team, repricing the income protection business to improve value and focusing on the claims finalisation pipeline to improve the timeliness of finalising claims, and
- increasing the size of retention teams to reach customers likely to lapse, rolling out tactical customer campaigns focused on pricing and value, and a review of business terms for adviser practices with high lapse rates.

Over the medium term, actions planned include developing new claims analytical tools, building a new claims technology platform and offering broader support – including rehabilitation– to customers on claim. AMP will also continue to improve on its monitoring and management of lapse experience, develop a new retention management framework and review adviser remuneration structures at both industry and AMP levels.
The strengthening of assumptions across both the retail income protection and lump sum products is expected to reduce profit margins by around $35 million in 2014. While significant action to remediate the group risk business has been undertaken during 2013, one scheme which contributed to over 70 per cent of losses will be repriced in June 2014. Some negative claims experience in group risk business is expected to continue until these repricing actions flow through.

Mature

Key priorities for management are to:

- maintain high persistency
- prudently manage asset and liability risk
- achieve greater cost efficiency, and
- maintain capital efficiency.

The Mature business remains in slow decline but is expected to remain profitable for many years. It is expected to run off between 4 to 6 per cent per annum. In volatile investment markets, this run-off rate can vary substantially.

The run-off of AUM mirrors policy liabilities, although there is potential for profit margins to be impacted differently. The run-off of Mature AUM is anticipated to have an average duration of approximately 14 years, but will be impacted by investment markets.

The expected run-off of Mature is not anticipated to be materially different from current guidance as a result of the StrongerSuper regulatory changes.

New Zealand

NZ's key priorities to grow shareholder value are:

- enhancing product features and offerings
- rationalising duplicate product sets
- improving the customer experience
- evolving distribution capability, and

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[7] Forward looking statements in the strategies and prospects by business segment section of the Directors' Report are based on management's current views and assumptions and involve known and unknown risks and uncertainties, many of which are beyond AMP's control and could cause actual results, performance or events to differ materially from those expressed. These forward looking statements are not guarantees or representations of future performance, and should not be relied upon.

- maximising cost efficiency.

Changes to the taxation of life insurance business in New Zealand will impact NZ from 1 July 2015, resulting in a material increase in the amount of corporate tax paid by NZ. These tax changes apply to all life insurance companies in New Zealand and are not specific to NZ. To offset the impact of this change on operating earnings, NZ is progressively growing its revenue base, reducing its overall costs and reducing the capital impacts of distributing life insurance.

AMP Capital
Working as a unified investment house, AMP Capital's key priorities are to generate revenue growth through:

- delivering outstanding investment outcomes to clients
- building a differentiated client experience driving strong client engagement
- partnering effectively across the AMP group to deliver investment solutions for retail, SMSF and corporate super customers
- expanding the global pension fund client base, and
- building preferential distribution partnerships in select Asian markets, particularly Japan and China.

AMP Capital's target cost to income ratio is 60 to 65 per cent by the first half of 2014.

Key risks which may impact AMP's business strategies and prospects for future financial years include:

- A volatile economic environment could have a negative impact on the profitability of AMP. When markets are volatile and investment returns are low, customers are more likely to change their investment preferences and products. This could result in customers choosing to put less of their discretionary savings into AMP superannuation and investment products which would reduce AMP's cash inflows and create lower profit margins. AMP continues to monitor market conditions and review its product offerings to ensure they continue to meet changing customer needs. Low and volatile investment markets can also impact the risks associated with capital guaranteed products, and AMP actively manages capital, liquidity and funding requirements in this context.
- In recent times AMP, in common with much of the industry, has been experiencing elevated claims and lapse rates, with a consequent adverse impact on profit. There is a risk that this poor experience continues or further deteriorates. There are many factors impacting claims and lapse experience including slower economic activity, the impact of the Future of Financial Advice reforms, changes in society's attitudes to claiming benefits, changes in state-based injury compensation schemes as well as changes in AMP's business mix over time. Many of these issues are affecting the Australian insurance industry as a whole whilst others are more specific to AMP. One of AMP's highest priorities is improving the profitability of its insurance products, some of which are in loss recognition and can have a large impact on earnings when claims and lapse experience assumptions change. AMP has a new management team in place in this area of the business who are undertaking wide-reaching actions to change the way insurance claims are managed so customers can return to work faster. They are also implementing new initiatives to help customers better understand the value and benefits of their policies, with the aim of reducing the number of policies which lapse.
- The Australian finance industry is in a period of significant regulatory change in relation to superannuation, the provision of financial advice, banking, capital requirements, US tax and privacy legislation. While most of the reforms are nearing completion, the interpretation, and the practical implementation of regulation, coupled with the failure to fund, manage and implement the required changes, could adversely impact AMP's business model, or result in a failure to achieve business and or strategic objectives. AMP actively engages with the government, regulators and industry bodies and has dedicated resources and change programs to meet the new requirements.
- In addition, AMP has embarked on a program to increase the scale and pace of change in its Australian business to better respond to changing customer demands and ongoing pricing pressures. Both customers and shareholders will benefit from this reshaping of the Australian business. The introduction of this program may cause some disruption within the business over the next 12 months. To manage these changes, AMP has dedicated resources and well established change programs and processes in place.
- Failure to comply with regulatory and legislative requirements could result in breaches, fines, regulatory action or reputational impacts. AMP has established frameworks and dedicated risk and compliance teams that work closely with the business to ensure compliance with regulatory and legal obligations. The provision of financial advice to customers is one of the current focus areas and AMP is working closely with regulators and external advisers to review processes and controls to ensure all financial advice provided by AMP advisers is compliant with the relevant regulations and in the best interest of the customer.
- AMP has a number of material outsourcing arrangements with external service providers. If these are not appropriately managed it could affect AMP's service to customers, financial performance, ability to meet regulatory requirements and reputation. AMP would also need to fund the cost of correcting any issues. AMP has policies and processes in place to ensure appropriate governance and management of external service providers. Dedicated teams ensure contracts and service level agreements are monitored regularly and performance targets are reviewed to ensure required deliverables and standards are met.

The directors expect these risks will continue to have the potential to impact AMP and management will continue to monitor and manage these risks closely.

Dividends

No dividends have been paid, declared or recommended during the year.

Significant changes in the state of affairs

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

Environmental regulations

The Company's operations are not subject to any particular and significant environmental regulation under a Law of the Commonwealth or State or Territory.

Events occurring after the reporting date

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

Likely developments

The Company is expected to continue to operate as described in the Strategies, prospects and key risks section above for the foreseeable future.

Indemnification and insurance of directors and officers

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

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

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

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

- these officers will have access to the books of the company for their period of office and for seven years after they cease to hold office (subject to certain conditions); and

AMPGH agrees to indemnify the officer, to the extent permitted by law, against any liability incurred by the officer in his or her capacity as a director or secretary of the company and of other AMP group companies.

Rounding

In accordance with the Australian Securities and Investments Commission (ASIC) Class Order 98/100, amounts in this directors' report and the accompanying financial report has been rounded to the nearest hundred thousand Australian dollars, unless stated otherwise.

Auditor's independence

The directors have obtained an independence declaration from the Company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the directors' report for the year ended 31 December 2013.

Directors' report (continued)

for the year ended 31 December 2013

Signed in accordance with a resolution of the directors.

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Colin Storrie

Director

Sydney, 27 February 2014

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Building a better working world

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

In relation to our audit of the financial report of AMP Group Finance Services Limited for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Richard Balfour
Partner
Sydney
27 February 2014

AMP Group Finance Services Limited

ABN 95 084 247 914

Financial report

for the year ended 31 December 2013

Contents

Registered Office:
33 Alfred Street
Sydney NSW 2000 Australia

AMP Group Finance Services Limited is a company limited by shares and is incorporated and domiciled in Australia.

Statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 $m	2012 $m
Interest income	4	108.2	126.8
Interest expense	4	(105.1)	(123.4)
Net interest income		3.1	3.4
Net foreign exchange gain (loss) on loans to related parties		26.0	(4.4)
Other income		2.4	2.4
Other finance costs	5	(33.4)	2.0
Operating expenses		(0.3)	-
Profit (loss) for the year before income tax		**(2.2)**	**3.4**
Income tax (expense) credit	6	0.7	(1.0)
Profit (loss) for the year		**(1.5)**	**2.4**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
- gains (losses) in fair value of cash flow hedges		(1.1)	(13.2)
- income tax (expense) credit		0.3	4.0
- transferred from / (to) profit for the year		7.1	2.4
- transferred from / (to) profit for the year - income tax (expense) credit		(2.1)	(0.7)
Other comprehensive income (loss) for the year		**4.2**	**(7.5)**
Total comprehensive income (loss) for the year		**2.7**	**(5.1)**

Statement of financial position

as at 31 December 2013

	Note	2013 $m	2012 $m
Current assets			
Cash and cash equivalents		290.0	113.8
Receivables		1.6	0.2
Receivables - related parties		1,694.1	1,763.6
Derivative financial assets		1.9	2.9
Intercompany tax receivable from head entity		0.7	17.2
Total current assets		**1,988.3**	**1,897.7**
Non-current assets			
Deferred tax assets	6	5.9	15.6
Total non-current assets		**5.9**	**15.6**
Total assets		**1,994.2**	**1,913.3**
Current liabilities			
Payables		1.3	1.1
Payables - related parties		309.2	210.7
Subordinated debt	7	280.6	-
Derivative financial liabilities		8.2	14.0
Derivative financial liabilities- related parties		1.9	2.9
Total current liabilities		**601.2**	**228.7**
Non-current liabilities			
Borrowings		700.3	701.4
Subordinated debt	7	666.8	951.0
Deferred tax liabilities	6	9.1	18.1
Total non-current liabilities		**1,376.2**	**1,670.5**
Total liabilities		**1,977.4**	**1,899.2**
Net assets		**16.8**	**14.1**
Equity			
Issued capital	8	One dollar	One dollar
Reserves		(5.6)	(9.8)
Retained earnings		22.4	23.9
Total equity		**16.8**	**14.1**

Statement of changes in equity

for the year ended 31 December 2013

	Issued Capital $m	Cash flow hedge reserve $m	Retained earnings $m	Total shareholder equity $m
2013				
Balance at the beginning of the year	One dollar	(9.8)	23.9	14.1
Profit (loss)	-	-	(1.5)	(1.5)
Other comprehensive income	-	4.2		4.2
Total comprehensive income	-	4.2	(1.5)	2.7
Balance at the end of the year	**One dollar**	**(5.6)**	**22.4**	**16.8**
2012				
Balance at the beginning of the year	One dollar	(2.3)	21.5	19.2
Profit (loss)	-	-	2.4	2.4
Other comprehensive income	-	(7.5)		(7.5)
Total comprehensive income	-	(7.5)	2.4	(5.1)
Balance at the end of the year	**One dollar**	**(9.8)**	**23.9**	**14.1**

Statement of cash flows
for the year ended 31 December 2013

	2013 $m	2012 $m
Cash flows from operating activities		
Interest received	108.2	142.5
Interest paid	(106.0)	(122.2)
Receipts from (payments to) head entity for tax funding liabilities	16.1	(12.9)
Cash flows from operating activities before changes in operating assets and liabilities	**18.3**	**7.4**
Changes in operating assets and liabilities arising from cash flow movements		
Decrease (increase) in receivables - related parties	94.1	(101.7)
Derivative assets / liabilities	(8.4)	-
Increase (decrease) in payables - related parties	100.8	68.8
Proceeds from borrowings	-	42.9
Repayment of subordinated debt	(28.6)	-
Cash flows from operating activities	**176.2**	**17.4**
Cash flows from investing activities		
Funding loans from related parties	-	322.0
Borrowings matured	-	(322.0)
Cash flows from (used in) investing activities	**-**	**-**
Net increase (decrease) in cash and cash equivalents	176.2	17.4
Cash and cash equivalents at the beginning of the period	113.8	96.4
Cash and cash equivalents at the end of the period	**290.0**	**113.8**

Notes to the financial statements

for the year ended 31 December 2013

1. Corporate information

The financial report of AMP Group Finance Services Limited ("the Company") for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 27 February 2014.

The Company is an unlisted public company limited by shares, incorporated and domiciled in Australia. The Company conducts business in Australia.

The parent entity of the Company is AMP Group Services Limited. The ultimate parent entity is AMP Limited.

The principal activities of the Company are described in the Directors' report.

2. Summary of significant accounting policies

a) Basis of preparation

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

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

Changes in accounting policy
The following Australian Accounting Standards and amendments have become mandatory for adoption from 1 January 2013, but have not had any material effect on the financial position or performance of the Company:

- AASB 10 Consolidated Financial Statements and revised AASB 127 Separate Financial Statements
- Revised AASB 119 Employee Benefits.Revised AASB 101 *Presentation of Financial Statements*.
- AASB 11 *Joint Arrangements*
- AASB 13 *Fair Value Measurement*.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*.
- AASB 2012-5 *Amendments Arising From the 2009-2011 Annual Improvements Project*.
- AASB 2012-10 *Amendments to Australian Accounting Standards*
- AASB 2012-9 *Amendment to AASB 1048*
- AASB 2013-2 Amendments to AASB 1038 – *Regulatory Capital*.

Australian Accounting Standards issued but not yet effective
A number of new accounting standards and amendments have been issued but are not yet effective. The Company has not elected to early adopt any of these new standards or amendments in this financial report. Any financial impact to the Company of adopting these new standards and amendments, when applied in future periods, has not yet been determined.

b) Cash and cash equivalents

Cash and cash equivalents are measured at fair value, being the principal amount.

Notes to the financial statements (continued)

for the year ended 31 December 2013

2. Summary of significant accounting policies (continued)

c) Financial assets

Loans to related parties
All loans to related parties are financial assets initially recognised at fair value, net of directly attributable, incremental transaction costs. After initial recognition, loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income statement over the period of the contract using the effective interest rate method. Loans with no stated interest rates, which are held at call, are recorded at their nominal amount.

d) Recognition and derecognition of financial assets and financial liabilities

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

e) Impairment of assets

Assets measured at fair value, where changes in value are reflected in the Income statement, are not subject to impairment testing. All other financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment.

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

f) Taxes

Tax consolidation
AMP Limited, AMP Group Finance Services Limited and other wholly owned controlled entities of AMP Limited which are Australian domiciled companies comprise a tax-consolidated group of which AMP Limited is the head entity. The implementation date for the tax-consolidated group was 30 June 2003.

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

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2013

2. Summary of significant accounting policies (continued)

f) Taxes (continued)

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted to present value.

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

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2013

2. Summary of significant accounting policies (continued)

g) Payables, borrowing and subordinated debt

Payables
Payables include mainly loans from related parties and interest payable on derivative financial instruments. These are measured at the nominal amount payable. Given the short term nature of most payables, the nominal amount approximates fair value.

Borrowings and subordinated debt
All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value. After initial recognition, borrowings and subordinated debt are subsequently measured at amortised cost net of directly attributable transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income statement over the period of the contract using the effective interest method.

h) Derivative financial assets, derivative financial liabilities and hedging

The Company is exposed to changes in interest and foreign exchange rates. To mitigate the risks arising from these exposures, the Company uses derivative financial instruments such as interest-rate swaps. Derivative financial instruments are held for risk management purposes within mandates only and not for the purpose of speculation. The Company does not hold a derivative trading portfolio.

Derivatives are initially recognised at fair value exclusive of any transaction costs on the date on which the derivative contract is entered into and are subsequently re-measured to their fair value. At the end of the reporting period all derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

The method of recognising the movement in fair value depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Company designates a hedge of highly probable forecast transactions as a cash flow hedge. The Company does not recognise any fair value hedges.

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

Accounting for hedges

Cash flow hedges:
- The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the cash flow hedge reserve. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the Income statement in the period when the hedged item affects profit or loss;
- The gain or loss relating to any ineffective portion of a hedge is recognised immediately in the Income statement;
- Hedge accounting is discontinued when a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income statement; and
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income statement.

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

Notes to the financial statements (continued)

for the year ended 31 December 2013

2. Summary of significant accounting policies (continued)

h) Derivative financial assets, derivative financial liabilities and hedging (continued)

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

i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and liability simultaneously.

j) Contributed equity

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

k) Foreign currency transactions

Functional and presentational currency
The financial report is presented in Australian dollars (the presentation currency). Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The functional currency of the Company is Australian dollars.

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

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

l) Interest income and expense

Interest income and expense for all financial instruments measured at amortised cost is recognised in the Income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

m) Other finance costs

Other finance costs include exchange differences arising from foreign currency borrowings and changes in the fair value of derivative hedges and swap coupon payments. The accounting policy for derivatives is set out in note 2(h).

n) Operating expenses

Operating expenses are accrued or paid as incurred.

Notes to the financial statements (continued)

for the year ended 31 December 2013

3. Significant accounting judgments, estimates and assumptions

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements. Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events. Significant accounting judgements, estimates and assumptions include but are not limited to:

(a) Fair value of investments in financial assets and financial liabilities

The Company measures investments in some financial assets and some financial liabilities at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair values of financial instruments is set out in note 11.

(b) Tax

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2013

4. Net interest income

	2013 $m	2012 $m
Interest Income		
Interest received - related	102.7	119.4
Interest received - other	5.5	7.4
Total interest income	**108.2**	**126.8**
Interest expense		
Interest expense - related	(5.6)	(10.0)
Interest expense - other	(99.5)	(113.4)
Total interest expense	**(105.1)**	**(123.4)**

5. Other finance costs

	2013 $m	2012 $m
Other finance costs		
FX losses	(24.8)	4.4
Derivatives gains (losses) - related	(0.5)	(1.2)
Derivatives gains (losses) - other	(8.1)	(1.2)
Total other finance costs	**(33.4)**	**2.0**

Notes to the financial statements (continued)

for the year ended 31 December 2013

6. Income tax

	2013 $m	2012 $m
(a) Relationship between income tax and accounting profit		
Profit (loss) from continuing operations before income tax	(2.2)	3.4
Prima facie tax (expense) credit at 30% (2011: 30%)	0.7	(1.0)
Income tax (expense) credit per Income statement	**0.7**	**(1.0)**

	2013 $m	2012 $m
(b) Analysis of deferred tax assets		
Fair value of derivatives	0.2	0.3
Revaluation of loans to related parties	5.7	15.3
Total deferred tax assets	**5.9**	**15.6**
(c) Analysis of deferred tax liabilities		
Fair value of derivatives	0.6	0.9
Revaluation of borrowings and subordinated debt	8.1	16.3
Other	0.4	0.9
Total deferred tax liabilities	**9.1**	**18.1**
(d) Amounts recognised directly in equityAnalysis of deferred tax liabilities		
Deferred income tax (expense) credit related to items taken directly to equity during the current period	(1.8)	3.3

7. Subordinated debt

	2013 $m	2012 $m
Subordinated debt[1 2]		
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	67.0	57.5
Floating Rate Subordinated Unsercured Notes (first call date 2016, maturity 2021)[3]	599.8	599.6
A$ AMP notes (first call 2014, maturity 2019)[4]	173.4	202.0
NZ$ AMP notes (first call date 2014, maturity 2019)[4]	107.2	91.9
Total Subordinated debt[3]	**947.4**	**951.0**

1 Subordinated debt amounts are to fund corporate activities of the AMP Limited Group.

2 The $A AMP Notes and NZ$ AMP Notes are expected to be called in 2014. The remainder of the subordinated debt (2012: all) is expected to be settled more than 12 months from the reporting date.

3 In the event that AMP Limited does not call the subordinated debt at the first call date, the note holders have the right to exchange the notes for AMP Limited shares at a small discount to the volume weighted average price at that time.

4 In the event that AMP Limited does not call the subordinated debt at the first call date the note holders have the right to an interest margin of 150 percent higher than that at issue.

Notes to the financial statements (continued)

for the year ended 31 December 2013

8. Issued capital

	2013	2012
Total issued capital		
1 (2012: 1) fully paid ordinary share	One dollar	One dollar
Balance at the end of the year	**One dollar**	**One dollar**

Holders of ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held.

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the Company.

9. Notes to the Statement of cash flows

	2013 $m	2012 $m
(a) Reconciliation of the net profit after income tax to cash flows from operating activities		
Net profit (loss) after income tax	(1.5)	2.4
Other comprehensive income after income tax	4.2	(7.5)
	2.7	(5.1)
Interest receivable and payable and amortisation of borrowing cost recognised as movements in receivables, payables, borrowings and subordinated debt.	-	9.3
Net foreign exchange gain (loss) recognised as movements in receivables and borrowings	1.2	-
Movements in derivative financial assets / liabilities	(2.6)	10.9
Movement in tax asset / liability balances	(16.1)	(15.2)
Changes in operating assets and liabilities arising from cash flow movements	191.0	17.5
Net cash flows from (used in) operating activities	176.2	17.4
(b) Reconciliation of cash and cash equivalents		
Cash balance comprises:		
- Cash at bank	3.0	0.8
- Short term deposits	287.0	113.0
Balance at end of the period	290.0	113.8
(c) Financing arrangements		
(ii) Funding programs available:		
- Available	9,539.0	7,816.0
- Used	(1,150.0)	(1,082.0)
Unused	**8,389.0**	**6,734.0**

Notes to the financial statements (continued)

for the year ended 31 December 2013

10. Risk management and financial instruments information

Financial risk management
Financial risk management (FRM) within AMP Group Finance Services Limited (AMPGFS) is managed as part of the broader AMP Group's enterprise risk management framework. The AMP Limited Audit Committee, supported by the Group Asset and Liability Committee (Group ALCO), is responsible for ensuring financial risks are appropriately managed.

(a) Risks and mitigation
Financial risks arising in the AMPGFS include market risk (Interest rate risk, foreign exchange risk and currency risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the AMP Group's Enterprise Risk Management Policy and individual policies for each risk category. This financial risk management includes the use of derivative financial instruments such as cross-currency and interest rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

Market risk is the risk that the fair value of assets and liabilities, or future cash flows of a financial instrument will fluctuate due to movements in the financial markets. These movements include foreign exchange rates, interest rates and credit spreads. Market risk in the AMPGFS arises from the management of corporate debt.

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

The sensitivity is required to show the impact of a reasonably possible change in market rate (it is not intended to illustrate a remote, worst case, stress test scenario nor does it represent a forecast. In addition it does not include the impact of any mitigating management actions) over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

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

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

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

  AMPGFS policy is to maintain between 40–60 per cent of borrowings and subordinated debt at fixed rates. This, however, has been adjusted by Group ALCO towards 100 per cent floating as debt matures to hedge other interest rate exposures across AMPGFS. At the reporting date, 59.8 per cent (2012: 50 per cent) of the AMPGFS's borrowings and subordinated debt were effectively at fixed rates.

Interest rate risk sensitivity analysis
This analysis demonstrates the impact of a 100 basis point change in Australian and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel

Notes to the financial statements (continued)

for the year ended 31 December 2013

10. Risk management and financial instruments information (continued)

shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting. A sensitivity level of 100 basis points is determined considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in the AMPGFS.

	2013		2012	
	Impact on profit and loss after tax	Impact on equity	Impact on profit and loss after tax	Impact on equity
Change in variables	$m	$m	$m	$m
+100 basis points	0.3	3.0	0.7	5.6
-100 basis points	(0.3)	(3.1)	(0.7)	(5.8)

(d) Currency risk

AMPGFS issues bonds and subordinated debt in pounds sterling and New Zealand dollars. The company manages this risk by lending all its funds to a related party AMPFS on the same terms and conditions of the underlying borrowings. Therefore AMPGFS is not directly exposed to any currency risk.

(e) Liquidity and refinancing risk

Liquidity risk is the risk that the AMPGFS is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk is the risk that AMPGFS is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2013

10. Risk management and financial instruments information (continued)

Maturity profiles of undiscounted financial liabilities

31 December 2013	Up to 1 Year or no term	1 to 5 Years	Over 5 Years	Total
	$m	$m	$m	$m
Non-derivative financial liabilities				
Payables - related parties	(309.2)	-	-	(309.2)
Borrowings	(56.4)	(769.0)	-	(825.4)
Subordinated debt	(314.0)	(666.0)	(109.0)	(1,089.0)
Derivative financial instruments				-
Interest rate swaps	(9.7)	(8.3)	-	(18.0)
Total undiscounted financial liabilities	**(689.3)**	**(1,443.3)**	**(109.0)**	**(2,241.6)**

31 December 2012	Up to 1 Year or no term	1 to 5 Years	Over 5 Years	Total
	$m	$m	$m	$m
Non-derivative financial liabilities				
Loans from related parties	(210.7)	-	-	(210.7)
Borrowings	(38.1)	(762.6)	-	(800.7)
Subordinated debt	(62.9)	(994.4)	(73.2)	(1,130.5)
Derivative financial instruments				
Interest rate swaps	(8.2)	(11.2)	-	(19.4)
Total undiscounted financial liabilities	**(319.9)**	**(1,768.2)**	**(73.2)**	**(2,161.3)**

Footnote:

(1) The balances in the above table will not agree directly to the balances in the Statement of Financial Position as the table incorporates all cash flows on an undiscounted basis, related to both principal and future interest payments.

Notes to the financial statements (continued)

for the year ended 31 December 2013

10. Risk management and financial instruments information (continued)

(f) Credit risk

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

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

Credit risk directly and indirectly impacting shareholder capital is measured and managed by Group Treasury on a group basis, by aggregating risk from credit exposures taken in business units, as detailed below.

(i) Management of credit risk concentration

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

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

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

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

(ii) Exposure to credit risk

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

Credit rating	2013 $m	2012 $m
AA- to AA+	290.0	113.8
A- to A+	1.9	2.9
Total financial assets with credit risk exposure managed by Group Treasury	**291.9**	**116.7**

(g) Derivative financial instruments

Derivative financial instruments are measured at fair value in the Statement of financial position as assets and liabilities. Asset and liability values on individual transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in values of derivative financial instruments are recognised in the Income statement unless they qualify as effective cash flow hedges for accounting purposes, as set out in note 2(h).

Notes to the financial statements (continued)

for the year ended 31 December 2013

10. Risk management and financial instruments information (continued)

A description of each of these derivatives used by AMPGFS from time to time is given below.

- Swaps – a swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified payment or settlement dates. Swap transactions undertaken by AMPGFS include interest-rate swaps, which involve the contractual exchange of fixed and floating interest rate payments in a single currency based on a notional amount and a reference rate (For example BBSW), and cross-currency swaps which involve the exchange of interest payments based on two different currency principal balances and reference interest rates, and generally also entail exchange of principal amounts at the start and/or end of the contract.
- Forward– these are agreements between two parties establishing a contractual interest rate on a notional principal over a specified period, commencing at a future date. Forward contracts are tailor-made agreements that are transacted between counter parties in the over-the-counter market (OTC), whereas futures are standardised contracts transacted on regulated exchanges.

Risks relating to derivative financial instrument is managed and controlled as an integral part of the financial risk of the AMP group. The credit risk of derivatives is also managed in the context of the AMP group's overall credit risk policies.

(h) Accounting for hedges

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

Derivative transactions may qualify for cash flow hedge accounting. The AMPGFS accounting policies for derivatives designated and accounted for as hedging instruments are explained in note 1(i), where terms used in the following section are also explained. AMPGFS also enters into derivative transactions that provide economic hedges but do not meet the requirements for hedge accounting treatment.

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

	0-1 year	1-2 years	2-3 years	3-4 years	4-5 years
	$m	$m	$m	$m	$m
2013					
Cash inflows	**9.0**	**8.0**	**-**	**-**	**-**
Cash outflows	**(15.0)**	**(11.0)**	**-**	**-**	**-**
Net cash inflow/(outflow)	**(6.0)**	**(3.0)**	**-**	**-**	**-**
2012					
Cash inflows	13.1	9.9	8.2	-	-
Cash outflows	(20.0)	(15.3)	(10.9)	-	-
Net cash inflow/(outflow)	(6.9)	(5.4)	(2.7)	-	-

Nil (2012: nil) was recognised in the Income statement due to hedge ineffectiveness from cash flow hedges.

(i) Master netting or similar agreements

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 meet the criteria for offsetting in the Statement of financial position as the Company does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default.

As at 31 December 2013, if these netting arrangements were applied to the derivative portfolio, the derivative assets of $1.9m would be reduced by $0.7m to the net amount of $1.2m and derivative liabilities of $10.1m would be reduced by $0.7m to the net amount of $9.4m (31 December 2012: derivative assets of $2.9m reduced by $2.4m to the net amount of $0.5m and derivative liabilities of $16.9m reduced by $2.4m to the net amount of $14.5m).

Notes to the financial statements (continued)

for the year ended 31 December 2013

11. Fair value information

(a) Fair values

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

	Carrying amount 2013 $m	Aggregated fair value 2013 $m	Carrying amount 2012 $m	Aggregated fair value 2012 $m
Financial assets				
Debt securities	-	-	-	-
Loans to related parties	1,694.1	1,694.1	1,763.2	1,857.0
Total financial assets	**1,694.1**	**1,694.1**	**1,763.2**	**1,857.0**
Financial liabilities				
Loans from related parties	309.2	309.2	210.7	210.7
Borrowings	700.3	713.6	701.4	717.3
Subordinated debt	947.4	966.9	951.0	974.1
Total financial liabilities	**1,956.9**	**1,989.7**	**1,863.1**	**1,902.1**

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(ii) Borrowings

Borrowings comprise domestic commercial paper, drawn liquidity facilities and various floating-rate and medium-term notes. The fair values of borrowings are predominantly hedged by derivative instruments – mainly cross-currency and interest rate swaps. The estimated fair value of borrowings is determined with reference to quoted market prices. For borrowings where quoted market prices are not available, a discounted cash flow model is used, based on a current yield curve appropriate for the remaining term to maturity.

(iii) Subordinated debt

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

(b) Fair value measures

The company's assets and liabilities measured at fair value are categorised as Level 2 under the three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

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

Notes to the financial statements (continued)

for the year ended 31 December 2013

12. Capital Management

The Company manages its capital within the broader framework of the AMP Limited Group capital management strategy. The primary capital management objective is to ensure the Company will be able to continue as a going concern while minimising excess capital through capital initiatives, such as dividends, where appropriate.

The Company's Board monitors the Company's capital position. As the Company forms part of the AMP Limited Group, the Company's capital management policies and processes are determined in line with AMP Limited Group's capital management strategy. The AMP Limited Group assesses the adequacy of its capital requirements against regulatory capital requirements. The AMP Limited Group's capital management strategy forms part of the AMP Limited Group's broader strategic planning process. In addition to managing the level of capital resources, the AMP Limited Group also attempts to optimise the mix of capital resources to minimise the cost of capital and maximise AMP Limited Group shareholder value. The AMP Limited Group holds a level of capital above its minimum regulatory capital requirements.

The Company's capital comprises issued capital, reserves and retained earnings and the movements in these balance are disclosed in the Statement of changes in equity.

The Company is not subject to any externally imposed capital requirements.

Notes to the financial statements (continued)

for the year ended 31 December 2013

13. Related party disclosures

(a) Key management personnel details

The following individuals were the key management personnel of the Company for the current and prior reporting periods:

Colin Storrie
David Rowe
Leanne Ward (Appointed 18 November 2013)
Simon Hoole (Resigned 18 November 2013)

(b) Transactions with key management personnel

The Company has no direct employees.

No director was paid any remuneration by the Company or on behalf of the Company in exchange for services rendered to the Company.

(c) Transactions with related parties in the AMP Limited Group

The following related party transactions occurred during the financial year:

i) Loans totalling $1694.1m (2012: $1,763.6m) to related parties are under normal commercial terms and conditions. The balance includes accrued interest of $11.8m (2012: $13.9m) receivable on these loans at reporting date.

ii) Intercompany tax receivable from the head entity of $0.7m (2012: $17.2m) which has been disclosed separately in the Statement of financial position.

iii) Interest income and interest expense from related parties in Note 4 is earned/incurred under normal commercial terms and conditions.

iv) AMP Services Limited provided the Company with certain administrative and management services. The services were provided in the normal course of business and on normal commercial terms and conditions or on a full cost recovery basis.

v) AMP Group Holdings Limited acts as guarantor for major external debt issues by entities in the AMP Limited Group, including those issued by AMP Group Finance Services Limited. AMP Group Holdings Limited also provides guarantees for performance obligations and undertaking for maintenance of net worth and liquidity support to controlled entities in the AMP Group Holdings Group. AMP Group Holdings Limited has entered into a Deed of Financial Support whereby AMP Group Holdings Limited will provide financial support to AMP Group Finance Services Limited on the terms set out in the Deed to ensure that AMP Group Finance Services Limited receives full repayment of all loans receivable from AMP Finance Services Limited.

vi) The Company had interest rate swaps of notional value $50m (2012: $50.0m) with a related entity.

vii) Loans totaling $309.2m (2012: $210.7m) from related parties under normal commercial terms and conditions remain outstanding at 31 December 2013. This amount includes accrued interest of $1m (2012: $0.4m) payable at reporting date.

Notes to the financial statements (continued)

for the year ended 31 December 2013

14. Auditor's remuneration

Auditor's remuneration is paid on the Company's behalf by a controlled entity within the AMP Limited Group.

15. New Zealand Debt Exchange reporting

The Australian Securities Exchange corporate governance rules and principles may materially differ from the New Zealand Debt Exchange's corporate governance rules and the principles of the Corporate Governance Best Practice Code. Investors may find more information about the corporate governance and principles of the Australian Securities Exchange at www.asx.com.au.

16. Events occurring after the reporting date

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

Directors' declaration

for the year ended 31 December 2013

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

(a) in the opinion of the directors there are reasonable grounds to believe that AMP Group Finance Services Limited will be able to pay its debts as and when they become due and payable;

(b) in the opinion of the directors the financial statements and notes of AMP Group Finance Services Limited for the financial year ended 31 December 2013 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 of AMP Group Finance Services Limited include an explicit and unreserved statement of compliance with the International Financial Reporting Standards as set out in Note 2(a) of the financial statements.

....

Colin Storrie
Director

Sydney, 27 February 2014

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Independent auditor's report to the member of AMP Group Finance Services Limited

Report on the financial report

We have audited the accompanying financial report of AMP Group Finance Services Limited, which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

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Independence

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

Opinion

In our opinion:

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

   i giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note2.

Ernst & Young

Ernst & Young

Richard Balfour
Partner
Sydney
27 February 2014