

AMP Group Finance Services Limited

ABN 95 084 247 914

**Directors' report and Financial report
for the year ended
31 December 2015**

AMP Group Finance Services Limited

Directors' report

for the year ended 31 December 2015

Your directors present their report of AMP Group Finance Services Limited ("the Company") for the year ended 31 December 2015.

Directors

The directors of the Company during the year ended 31 December 2015 and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise.

Gordon Lefevre - Chairman
David Rowe
James Georgeson

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 2015 was a net loss after tax of \$13.7m (2014: net loss after tax of \$6.9m).

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 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 loans receivable from entities within AMP.

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

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.

AMP provides retail customers in Australia and New Zealand with financial advice, superannuation, retirement income and investment products. AMP also provides superannuation services for businesses, administration, banking and investment services for self-managed superannuation funds (SMSF), income protection, disability and life insurance, and selected banking products. These products and services are delivered directly from AMP and through a network of over 4,000 aligned and employed financial advisers in Australia and New Zealand and extensive relationships with independent financial advisers.

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

AMP Group Finance Services Limited

Directors' report (continued)

for the year ended 31 December 2015

AMP has over 5,400 employees, around 800,000 shareholders and manage over \$220 billion in assets.

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

In this report, our business is divided into five areas: Australian wealth management, AMP Capital, Australian wealth protection, New Zealand financial services and Australian mature.

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

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

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

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

The *Australian mature* business is the largest closed life insurance business in Australia. Australian mature assets under management (AUM) comprises capital guaranteed products (76%) and market linked products (24%). Australian mature products include whole of life, endowment, investment linked, investment account, retirement savings account, eligible rollover fund, annuities, insurance bonds, personal superannuation and guaranteed savings accounts.

2015 performance

We are pleased with the continued growth momentum and resilience of our business in 2015, especially given the challenging market conditions in the second half. We have delivered growth in our Australian wealth management, AMP Capital and New Zealand businesses, while controlling costs and further strengthening our capital position.

The profit attributable to shareholders of AMP Group Holdings Limited for the year ended 31 December 2015 was \$847 million (2014: \$784 million).

Operating results by business area

The operating results of each business area for 2015 were as follows:

- *Australian wealth management* – operating earnings increased by \$36 million (10%) to \$410 million in 2015 from \$374 million in 2014. The increase in operating earnings was largely due to strong net cashflows and investment returns generating growth of over 10% in average AUM from 2014 and a continued focus on costs which declined 2.7% from 2014.
- *AMP Capital* – AMP group's 85% share of AMP Capital's 2015 operating earnings was \$138 million, up 20% from \$115 million in 2014. Despite soft equity markets in the second half of 2015, AMP Capital's operating earnings benefited from strong fee income growth of 14%, assisted by higher performance fees and strong net cash inflows. The strong fee income growth was partially offset by a 9% increase in controllable costs.
- *Australian wealth protection* – operating earnings declined by \$3 million (2%) to \$185 million in 2015 from \$188 million in 2014, impacted by experience losses of \$11 million over the year.
- *New Zealand financial services* – operating earnings increased by \$10 million (9%) to \$120 million in 2015 from \$110 million in 2014, mainly as a result of higher profit margins and experience profits, partially offset by the reduction in transitional tax relief. Excluding the effect of the tax relief reduction, operating earnings increased by 22%.

AMP Group Finance Services Limited

Directors' report (continued)

for the year ended 31 December 2015

- *Australian mature* – operating earnings fell \$16 million to \$158 million in 2015 from \$174 million in 2014. Operating earnings were impacted by the expected portfolio run-off (\$8 million decrease), experience losses (\$5 million) and large one-off wholesale investor redemptions in the second half of 2014 (\$5 million). These were partially offset by lower controllable costs (\$2 million).

Capital management and dividend

Equity and reserves of the AMPGH group attributable to shareholders of AMP Group Holdings Limited increased to \$6.1 billion at 31 December 2015 from \$6.0 billion at 31 December 2014.

Strategy and prospects

Our vision is to be Australia's and New Zealand's favourite financial services company.

Our strategy for achieving this vision is outlined below. Information which could affect our competitive advantage if published has been omitted.

AMP's four strategic initiatives are aligned to our purpose of helping people own tomorrow.

1. Growth

AMP's priority is to invest in the Australian wealth industry by building on its leading market positions to capture growth.

AMP has chosen to operate in large and growing markets where it can exercise its competitive advantages. The company's primary priority is to grow in the expanding \$2.6 trillion¹ Australian wealth management market.

In addition, AMP is also focused on growing its operations in New Zealand, and in selected international markets through its investment manager, AMP Capital.

AMP maintains its number one² market share position in the Australian superannuation market, which is projected to double in size by 2026³. Self-managed superannuation is the largest segment of the superannuation market, and AMP has become the market leader in SMSF administration. In January 2016, AMP announced a new business name and operating structure for its SMSF unit, known as SuperConcepts. SuperConcepts incorporates a full range of SMSF administration and software services.

AMP maintains its number one position in the individual risk insurance market⁴. The recovery of the company's life insurance business continues to be a key priority.

2. Transform the Australian business

AMP is transforming its core Australian business to be more customer-centric. This means providing better, more relevant customer experiences and solutions.

During the past two years, AMP has put in place the core infrastructure of this customer-centred business.

Transform face-to-face advice model

AMP is aiming to make financial advice more relevant, accessible and affordable for consumers, and at the same time, more efficient and profitable for AMP and its advisers. The company is currently piloting an innovative goals-based, face-to-face advice experience.

Diversify customer channels

AMP wants to give customers choice about how to interact with us. To do this, AMP is transforming its digital capabilities and installing the core infrastructure to build a seamless omni-channel experience.

Deliver a superior customer experience

AMP is beginning to transform its customers' service experiences. Customer-facing teams are now using a customer feedback and measurement system to identify and improve service.

¹ ABS Managed Funds Report, Managed Funds Industry, September 2015.

² Fund Market Overview Retail – Marketer, Plan for Life, September 2015.

³ Dynamics of the Australian Superannuation System, The Next 20 Years: 2015–2035, Deloitte, November 2015; AMP modelling.

⁴ Life Insurance Overview – Risk Insurance, Plan for Life, September 2015.

AMP Group Finance Services Limited

Directors' report (continued)

for the year ended 31 December 2015

Build a goals-oriented enterprise

Consumer research has built conviction in taking a goals-based approach to products and services. This approach will be rolled out across the company from 2016. Four goals have been prioritised, and customer solutions are now being designed for them.

3. Reduce costs

Efficiency continues to be a high priority for AMP, so that the company can continue to invest in better customer experiences – and increase its profitability.

The three year business efficiency program (expected to lead to \$200 million in pre-tax recurring run rate cost savings by the end of 2016 for a one-off investment of \$320 million pre-tax) continues to be on track.

4. Expand internationally

AMP continues to expand internationally, primarily through AMP Capital, in high-growth potential regions where its expertise and capabilities are in demand.

It is doing this by building strong partnerships with national champions in China and Japan and capitalising on investor demand for infrastructure, property and fixed income capabilities.

Strategies and prospects by business area^{5,6}

Australian wealth management

Australian wealth management's key priorities are to:

- build a more customer-centric business whilst remaining vigilant on cost control
- improve the quality of the advice experience and expand the methods by which customers can access AMP's products and services
- use new capabilities to design customer-centric offers covering advice, product and service
- develop a strong SMSF capability.

The announced closure of Genesys Wealth Advisers in November 2014 will impact current and future period cashflows. However, the impact on Australian wealth management operating earnings and value measures is expected to be immaterial.

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
- building preferential distribution partnerships in select Asian markets, particularly Japan and China.

Australian wealth protection

The key priorities for management are to:

- drive the ongoing business recovery program to ensure its long-term sustainability
- maximise value creation through the implementation of customer retention initiatives and claims management
- drive improved capital efficiency of the business
- increase product sales through AMP's adviser networks and corporate super channels.

The gradual reversion of best estimate claims and lapse assumptions to lower longer-term levels, combined with increasing costs from continued investment in the wealth protection business, will require ongoing delivery of improved lapse and claims outcomes in order to avoid negative experience over time.

⁵ 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.

⁶ 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.

AMP Group Finance Services Limited

Directors' report (continued)

for the year ended 31 December 2015

New Zealand financial services

New Zealand financial services (NZFS) has the following key priorities to grow shareholder value:

- deepen its customer relationships
- re-engineer wealth protection to increase product attractiveness
- transform wealth management to maximise efficiency and market opportunities created by regulatory change
- evolve advice and distribution capability
- leverage the KiwiSaver opportunity
- build on its general insurance partnership
- continue its focus on cost control.

Changes to the taxation of life insurance business in New Zealand impacted the business from 1 July 2015. This resulted in a one-off reduction in profit margin of \$10 million in the second half of 2015. NZFS continues to grow its revenue base across the business, closely manages costs and is evolving its distribution channels to reduce capital impacts of distributing life insurance. The tax changes apply to all life insurance companies in New Zealand and are not specific to AMP's NZFS business.

Australian mature

Key priorities for the Australian mature business are to:

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

The Australian mature business remains in slow decline but is expected to remain profitable for many years. It is expected to run off between 4% and 6% 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 Australian mature AUM is anticipated to have an average duration of approximately 13 years, but will be impacted by investment markets. The expected run-off of Australian mature is not anticipated to be materially different from current guidance as a result of MySuper transition activity.

Key risks

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

- *A volatile economic environment:* this 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. Volatile investment markets and a low interest rate environment can also impact the risks associated with capital guaranteed products, and AMP actively manages capital, liquidity and funding requirements in this context.
- *Disruption to business operations:* AMP continues to implement programs that change its Australian business to better anticipate and respond to the threats and opportunities that arise from changing customer demands, the evolving market environment, and the strategies of existing and new competitors. Both customers and shareholders will benefit from this reshaping of the Australian business. Programs of this type can naturally cause disruption within a business as it adapts to new approaches, models and ways of working. To manage these changes, AMP has dedicated resources and expertise working with business areas, and well established change programs and processes in place.
- *Regulatory changes to the financial services industry:* the Australian financial services industry is in a period of significant regulatory change in relation to superannuation, the provision of financial advice, banking, capital requirements, and foreign tax legislation. The interpretation and the practical implementation of regulation, coupled with the failure to 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 underway to ensure compliance with the new requirements.

AMP Group Finance Services Limited

Directors' report (continued)

for the year ended 31 December 2015

- *Non-compliance with regulatory and legislative requirements:* failure to comply with regulatory and legislative requirements could result in breaches, fines, regulatory action or reputational impacts. AMP has established frameworks and dedicated legal, risk and compliance teams who work closely with the business to meet its 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 interests of the customer.
- *Elevated insurance claims and lapse rates:* in recent years, in common with much of the industry, AMP has experienced volatile and elevated insurance claims and lapse rates. However, there are many factors impacting claims and lapse experience including slower economic activity, cost of living pressures and unemployment levels, the impact of the Future of Financial Advice and life insurance adviser remuneration reforms, changes in society's attitudes to claiming benefits and changes in health of lives insured, changes in state-based injury compensation schemes as well as changes in AMP's business mix over time. One of AMP's priorities is to improve 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. Key projects are underway to change the way insurance claims are managed to help customers return to work faster and better understand the value and benefits of their policies, with the aim of reducing the number of policies which lapse. Volatility in wealth protection experience is to be expected from period to period given the size of AMP's in-force book in Australia. Further, whilst remediation of the Australian wealth protection business progresses, there continues to be potential for increased volatility in this area of the business.
- *Outsourcing risk:* AMP has a number of material outsourcing arrangements with external service providers that support critical business functions. 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 regularly monitor contracts, service level agreements and performance targets to ensure required deliverables and standards are met.
- *Cyber risk:* the ongoing evolution of technologies has led to a rapidly changing environment that criminal networks will seek to exploit. Cybercriminals can impact AMP and our customers by finding new ways to exploit weaknesses in processes, hacking into customers' computers, deceiving employees, and exploiting potential weaknesses in AMP's control environment. AMP's network and assets are protected through the use of detective, preventative and responsive tools. While defence systems are continually reviewed and assessed it is inevitable that cybercrime will occur. In assessing and mitigating cybercrime, AMP considers vulnerabilities and the potential for control failures across people, processes and technology.

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

AMP Group Finance Services Limited

Directors' report (continued)

for the year ended 31 December 2015

Indemnification and insurance of directors and officers

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

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

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

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

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

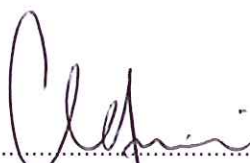
Rounding

In accordance with the Australian Securities and Investments Commission (ASIC) Class Order 98/100, amounts in this directors' report and the accompanying financial report have 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 2015.

Signed in accordance with a resolution of the directors.



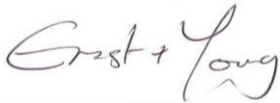
Gordon Lefevre
Director

Sydney, 5 April 2016

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

As lead auditor for the audit of AMP Group Finance Services Limited for the financial year ended 31 December 2015, 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



Darren Handley-Greaves
Partner
5 April 2016

AMP Group Finance Services Limited

ABN 95 084 247 914

Financial report

for the year ended 31 December 2015

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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 2015

	Note	2015 \$m	2014 \$m
Interest income	3	64.8	79.3
Interest expense	3	(57.0)	(88.6)
Net interest income (expense)		7.8	(9.3)
Net foreign exchange gain (loss) on loans to related parties		9.3	2.6
Foreign exchange losses on borrowings and subordinated debt		(4.6)	(2.9)
Derivatives gains (losses) - related		10.0	(26.1)
Derivatives gains (losses) - other		(43.1)	25.1
Other income		1.2	1.1
Operating expenses		(0.2)	(0.3)
Profit (loss) for the year before income tax		(19.6)	(9.8)
Income tax (expense) credit	4	5.9	2.9
Profit (loss) for the year		(13.7)	(6.9)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
- transferred from / (to) profit for the year		-	8.0
- transferred from / (to) profit for the year - income tax (expense) credit		-	(2.4)
Other comprehensive income (loss) for the year		-	5.6
Total comprehensive income (loss) for the year		(13.7)	(1.3)

Statement of financial position

for the year ended 31 December 2015

	Note	2015 \$m	2014 \$m
Current assets			
Cash and cash equivalents		201.9	61.8
Negotiable certificates of Deposit		49.7	-
Receivables - related parties		880.5	1,125.1
Receivables - other		5.3	0.6
Derivative financial assets - related parties		0.0	1.1
Derivative financial assets - other		97.7	0.3
Intercompany tax receivable from head entity		5.9	-
Total current assets		1,241.0	1,188.9
Total assets			
		1,241.0	1,188.9
Current liabilities			
Payables - related parties		216.2	46.8
Payables - other		0.6	0.2
Collateral deposits held		62.1	-
Borrowings		-	204.7
Subordinated debt	5	600.1	-
Derivative financial liabilities- related parties		0.0	0.3
Derivative financial liabilities - other		36.8	1.1
Intercompany tax payable to head entity		-	2.6
Total current liabilities		915.8	255.7
Non-current liabilities			
Borrowings		249.7	249.0
Subordinated debt	5	73.7	668.8
Total non-current liabilities		323.4	917.8
Total liabilities			
		1,239.2	1,173.4
Net assets			
		1.8	15.5
Equity			
Issued capital	6	One dollar	One dollar
Reserves		-	-
Retained earnings		1.8	15.5
Total equity		1.8	15.5

Statement of changes in equity

for the year ended 31 December 2015

	Issued Capital	Cash flow hedge reserve \$m	Retained earnings \$m	Total shareholder equity \$m
2015				
Balance at the beginning of the year	One dollar	-	15.5	15.5
Profit (loss)	-	-	(13.7)	(13.7)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(13.7)	(13.7)
Balance at the end of the year	One dollar	-	1.8	1.8
2014				
Balance at the beginning of the year	One dollar	(5.6)	22.4	16.8
Profit (loss)	-	-	(6.9)	(6.9)
Other comprehensive income	-	5.6	-	5.6
Total comprehensive income	-	5.6	(6.9)	(1.3)
Balance at the end of the year	One dollar	-	15.5	15.5

Statement of cash flows

for the year ended 31 December 2015

	Note	Consolidated	
		2015 \$m	2014 \$m
Cash flows from operating activities			
Interest and other items of a similar nature received		70.8	92.1
Interest paid and other finance costs		(56.5)	(89.7)
Other items		1.0	3.4
Receipts from head entity for tax funding liabilities		(2.6)	1.2
Cash flows from operating activities before changes in operating assets and liabilities	7	12.7	7.1
Changes in operating assets and liabilities arising from cashflow movements			
Decrease (increase) in receivables - related parties		238.4	554.9
Increase (decrease) in payables -related parties		178.4	(262.0)
Derivative financial assets / liabilities		(98.0)	-
Collateral deposits received		62.1	-
Cash flows from (used in) operating activities		393.6	299.9
Cash flows from investing activities			
Negotiable certificate of deposit		(49.7)	-
Cash flows from (used in) Investing activities		(49.7)	-
Cash flows from financing activities			
Repayment of borrowings		(203.8)	(250.0)
Repayment of subordinated debt		-	(278.2)
Cash flows from (used in) financing activities		(203.8)	(528.2)
Net increase (decrease) in cash and cash equivalents		140.1	(228.2)
Cash and cash equivalents at the beginning of the period		61.8	290.0
Cash and cash equivalents at the end of the period		201.9	61.8

Notes to the financial statements

for the year ended 31 December 2015

1. Basis of preparation and summary of significant accounting policies

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.

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 financial statements of AMP Group Finance Services Limited ("the Company") for the year ended 31 December 2015 were authorised for issue on 5 April 2016 in accordance with a resolution of the directors.

The financial report is presented in Australian dollars and all values are rounded to the nearest million dollars (\$m), unless otherwise stated.

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

A number of new accounting standards and amendments have been adopted effective 1 January 2014, but have not had any material effect on the financial position or performance of the AMP group:

- AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*.

Australian Accounting Standards issued but not yet effective

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

- AASB 9 *Financial Instruments*. This standard makes significant changes to the classification of financial instruments and to hedge accounting requirements and disclosures, and introduces a new expected loss model when recognising expected credit losses on financial assets. This standard is mandatory for adoption by the AMPGH group for the year ending 31 December 2018. The financial impact to the AMPGH group of adopting AASB 9 *Financial Instruments* has not yet been quantified.

Notes to the financial statements (continued)

for the year ended 31 December 2015

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

b) Cash and cash equivalents

Cash and cash equivalents comprise cash-on-hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount.

c) Financial assets

Receivables - 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 expires.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2015

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

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 assumed by the head entity as described above. The contributions are calculated in accordance with the tax funding agreement. The contributions are payable as set out in the agreement and reflect the timing of AMP Limited's obligations to make payments to the Australian Taxation Office.

Assets and liabilities which arise as a result of balances transferred from entities within the tax-consolidated group to the head entity are recognised as 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.

Notes to the financial statements (continued)

for the year ended 31 December 2015

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

f) Taxes (continued)

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.

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 net of directly attributable transaction costs. After initial recognition, borrowings and subordinated debt 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 method.

h) Derivative financial assets, derivative financial liabilities and hedging

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.

Notes to the financial statements (continued)

for the year ended 31 December 2015

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

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

Derivatives that do not qualify for hedge accounting

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

Fair value estimation

The fair value of financial instruments 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) 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.

j) 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.

k) 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.

l) Other finance costs

Other finance costs include exchange differences arising from foreign currency borrowings and changes in the fair value of related derivative hedges and swap coupon payments. The accounting policy for derivatives is set out in note 1(h).

m) Operating expenses

Operating expenses are accrued or paid as incurred.

Notes to the financial statements (continued)

for the year ended 31 December 2015

2. 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 10.

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 2015

3. Net interest income

	2015	2014
	\$m	\$m
Interest Income		
Interest received - related	44.6	73.7
Interest received - other	3.5	4.1
Derivative interest received - other	16.7	1.5
Total interest income	64.8	79.3
Interest expense on borrowings and subordinated debt		
Interest expense - related	(3.9)	(4.1)
Interest expense - other	(47.5)	(75.0)
Derivative interest expense - other	(5.6)	(9.5)
Total interest expense	(57.0)	(88.6)

4. Income tax

	2015	2014
	\$m	\$m
(a) Relationship between income tax and accounting profit		
Profit (loss) from continuing operations before income tax	(19.6)	(9.8)
Prima facie tax (expense) credit at 30% (2013: 30%)	5.9	2.9
Income tax (expense) credit per Income statement	5.9	2.9

5. Subordinated debt

	2015	2014
	\$m	\$m
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	73.7	69.0
Floating Rate Subordinated Unsecured Notes (first call date 2016, maturity 2021) ¹	600.1	599.8
Total Subordinated debt	673.8	668.8

¹ The subordinated debt was redeemed on 29 March 2016.

6. Issued capital

	2015	2014
Total issued capital		
1 (2014: 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.

Notes to the financial statements (continued)

for the year ended 31 December 2015

7. Notes to the Statement of cash flows

	2015 \$m	2014 \$m
(a) Reconciliation of the net profit after income tax to cash flows from operating activities		
Net profit (loss) after income tax	(13.7)	(6.9)
Other comprehensive income after income tax	-	5.6
	(13.7)	(1.3)
Movement in tax asset / liability balances	(8.5)	0.7
Changes in operating assets and liabilities arising from cash flow movements incl Interest receivable and payable and amortisation of borrowing cost recognised as movements in receivables and payables.	415.8	300.5
Net cash flows from (used in) operating activities	393.6	299.9
(b) Reconciliation of cash and cash equivalents		
Cash balance comprises:		
- Cash at bank	85.9	50.0
- Short term deposits	116.0	11.8
Balance at end of the period	201.9	61.8
(c) Financing arrangements		
(ii) Funding programs available:		
- Available	12,583.0	11,554.0
- Used ¹	(2,107.0)	(1,841.0)
Unused	10,476.0	9,713.0

1 Finance is available under funding programs in place for the Company and another company in the AMP group. The amounts used are used by the other company.

Notes to the financial statements (continued)

for the year ended 31 December 2015

8. 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 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.

Interest rate risk sensitivity analysis

This analysis demonstrates the impact of a 100 basis point change in Australian and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting.

Notes to the financial statements (continued)

for the year ended 31 December 2015

8. Risk management and financial instruments information (continued)

Change in variables	2015		2014	
	Impact on profit and loss after tax \$m	Impact on equity \$m	Impact on profit and loss after tax \$m	Impact on equity \$m
+100 basis points	(40.2)	-	0.4	0.4
-100 basis points	71.3	-	(0.4)	(0.4)

(d) Currency risk

AMPGFS issues bonds and subordinated debt in pounds sterling and formally 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.

Notes to the financial statements (continued)

for the year ended 31 December 2015

8. Risk management and financial instruments information (continued)

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.

31 December 2015	Up to 1 Year or no term \$m	1 to 5 Years \$m	Over 5 Years \$m	Total \$m
Financial liabilities				
Payables - related parties	216.2	-	-	216.2
Payables - other	0.8	-	-	0.8
Borrowings	9.0	256.0	-	265.0
Subordinated debt	612.0	20.0	80.0	712.0
Derivative financial instruments				
Cross currency swaps:				
- Outflows	4.0	14.0	6.0	24.0
- Inflows	(2.0)	(6.0)	(3.0)	(11.0)
Interest rate swaps	3.0	12.0	3.0	18.0
Total undiscounted financial liabilities	843.0	296.0	86.0	1,225.0

31 December 2014	Up to 1 Year or no term \$m	1 to 5 Years \$m	Over 5 Years \$m	Total \$m
Financial liabilities				
Payables - related parties	46.8	-	-	46.8
Payables - other	0.2	-	-	0.2
Borrowings	212.7	267.0	-	479.7
Subordinated debt	37.3	630.1	97.2	764.6
Derivative financial instruments	1.3	-	-	1.3
Total undiscounted financial liabilities	298.3	897.1	97.2	1,292.6

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 2015

8. Risk management and financial instruments information (continued)**(e) 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.

	2015	2014
Credit rating	\$m	\$m
AA- to AA+	193.7	61.8
A- to A+	19.1	0.3
Total financial assets with credit risk exposure managed by Group Treasury	212.8	62.1

Notes to the financial statements (continued)

for the year ended 31 December 2015

8. Risk management and financial instruments information (continued)

(f) 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 1(h).

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.

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 2015, if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$97.7m would be reduced by \$62.2m to the net amount of \$35.5m and derivative liabilities of \$36.8m would be reduced by \$10.0m to the net amount of \$26.8m (31 December 2014: derivative assets of \$0.3m would be reduced by \$0.1m to the net amount of \$0.2m and derivative liabilities of \$1.1m would be reduced by \$0.1m to the net amount of \$1.0m).

Notes to the financial statements (continued)

for the year ended 31 December 2015

9. 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 2015 \$m	Aggregated fair value 2015 \$m	Carrying amount 2014 \$m	Aggregated fair value 2014 \$m
Financial assets				
Receivables	885.8	885.8	1,125.7	1,125.7
Debt securities	49.7	49.7	-	-
Total financial assets	885.8	885.8	1,125.7	1,125.7
Financial liabilities				
Payables	217.0	217.0	47.0	47.0
Borrowings	249.7	251.0	453.6	457.2
Subordinated debt	673.8	678.4	668.8	681.5
Total financial liabilities	1,140.5	1,146.4	1,169.5	1,185.7

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.

(i) 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.

(ii) 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 2015

10. 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.

To ensure that the AMPGFS has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and undrawn committed funding facilities to meet its liquidity requirements, Group Treasury maintains a defined surplus of cash targeting \$500m with a limit of \$200m 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 Company is not subject to any externally imposed capital requirements.

Notes to the financial statements (continued)

for the year ended 31 December 2015

11. Related party disclosures

(a) Key management personnel details

The following individuals were the key management personnel who held office during the year.

Gordon Lefevre - Chairman
David Rowe
James Georgeson

(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.

12. Auditor's remuneration

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

13. 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.

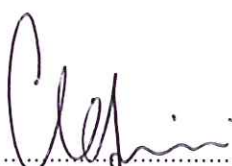
AMP Group Finance Services Limited

Directors' declaration

for the year ended 31 December 2015

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

- (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 the notes of AMP Group Finance Services Limited for the financial year ended 31 December 2015 are in accordance with the *Corporations Act 2001*, including section 296 (compliance with accounting standards) and section 297 (true and fair view)
- (c) the notes to the financial statements of AMP Group Finance Services Limited for the financial year ended 31 December 2015 include an explicit and unreserved statement of compliance with the International Financial Reporting Standards, as set out in note 1(a) to the financial statements



.....
Gordon Lefevre
Director

Sydney, 5 April 2016

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

We have audited the accompanying financial report of AMP Group Finance Services Limited which comprises the statement of financial position as at 31 December 2015, 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.

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.

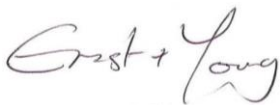
Independence

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 2015 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 Note 1.



Ernst & Young



Darren Handley-Greaves
Partner
Sydney
5 April 2016