AMP Group Finance Services Limited

ABN 95 084 247 914

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

AMP Group Finance Services Limited
Directors' report
for the year ended 31 December 2016

Your directors present their report of AMP Group Finance Services Limited ("the Company") for the year ended 31 December 2016.

Directors

The directors of the Company during the year ended 31 December 2016 and up to the date of this report are shown below. Directors were in office for this entire period.

Gordon Lefevre - Chairman
David Rowe
James Georgeson

Operating and financial review

Principal activities

The principal activities of the Company during the year were to undertake financial risk management and treasury activities for the AMP Limited Group (the AMP Group). 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 2016 was a net loss after tax of $331.9m (2015: Net loss after tax of $13.7m). The loss includes $322m write off of 'receivables – related' arising from the execution of a deed of novation which resulted in the company assuming all rights and obligations of AMP Finance Services Limited (a fellow wholly controlled entity within the AMP Group).

Strategies, prospects and key risks

The Company's strategy is to continue to operate as a financing entity within the AMP Group by borrowing from external parties, and lending the borrowed funds for use by other entities within the AMP Group.

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 the AMP Group. 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 the AMP Group to repay the Company may be limited by various regulatory, contractual, legal, tax and other constraints. However, the Company has financial support arrangements with AMP Group Holdings Limited (AMPGH) whereby AMPGH acts as guarantor for major external debt issues by entities in the AMP Group, 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 the AMP Group.

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 Group. AMP Bank is wholly owned by AMP Limited and is not part of the AMPGH group. However, AMPGH 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.

AMP provides retail customers in Australia and New Zealand with financial advice and 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 3,500 aligned and employed financial advisers in Australia and New Zealand and extensive relationships with independent financial advisers.

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

AMP have over 5,400 employees, around 795,000 shareholders and manage and administer $240 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, real estate, diversified funds, multi-manager and multi-asset funds.

Australian wealth protection comprises individual and group term life, trauma, 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 both directly and through a network of financial advisers. New Zealand financial services has a leading market position in both wealth protection and wealth management, in addition to being the market leader in advice and in providing support to advisers.

The *Australian mature* business is the largest closed life insurance business in Australia. Australian mature assets under management (AUM) comprises capital guaranteed products (77%) and market linked products (23%). Australian mature products include whole of life, endowment, investment linked, investment account, retirement savings account, eligible rollover fund, annuities, insurance bonds, personal superannuation and guaranteed savings accounts.

2016 performance
The loss attributable to shareholders of AMP Group Holdings Limited for the year ended 31 December 2016 was $530 million (2015: profit of $847 million).

Operating results by business area

The operating results of each business area for 2016 were as follows:

- *Australian wealth management* – operating earnings fell by $9 million (2%) to $401 million in 2016 from $410 million in 2015, largely due to the challenging investment market conditions which impacted investor sentiment and earnings, primarily in the first half of 2016. Operating earnings benefited from strong cost control, including lower variable remuneration in the second half of 2016.

- *AMP Capital* – AMP group's 85% share of AMP Capital's 2016 operating earnings was $144 million, up 4% from $138 million in 2015. Despite volatile equity markets in 2016, AMP Capital's operating earnings benefited from positive fee income growth of 5%, assisted by strong performance fees in the first half of 2016. Fee income growth was partially offset by an 8% increase in controllable costs.

- *Australian wealth protection* – 2016 operating losses of $415 million (2015: operating earnings of $185 million) were impacted by experience losses of $105 million and capitalised losses and other one off experience items of $485 million. Profit margins fell by $21 million (11%) to $175 million in 2016, largely due to the impact of strengthened assumptions adopted for lump sum products in the second half of 2015 and the implementation of a 50% quota share reinsurance arrangement of $750 million of annual premium income of the AMP Life retail portfolio, with Munich Reinsurance Company of Australasia Limited effective from 1 November.

- *New Zealand financial services* – operating earnings increased by $6 million (5%) to $126 million in 2016 from 2015 largely as a result of higher profit margins, partially offset by the reduction in transitional tax relief.

- *Australian mature* – operating earnings fell $7 million to $151 million in 2016 from $158 million in 2015. Operating earnings were impacted by the expected portfolio run-off ($9 million decrease), investment markets ($1 million) and other items ($1 million). These were partially offset by lower controllable costs ($3 million) and experience profits ($1 million).

Capital management and dividend
Equity and reserves of the AMPGH group attributable to shareholders of AMPGH Limited decreased to $5.0 billion at 31 December 2016 from $6.1 billion at 31 December 2015.

Strategy and prospects

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

AMP is well positioned to take advantage of positive long-term demographic and market trends and mitigate potential threats with a growth strategy that leverages its competitive advantages in its chosen markets. The company is pursuing a clear strategy for long-term growth with four key objectives:

- tilting investment to higher growth, less capital intensive businesses with strong positions in growing markets
- transforming the core Australian business to centre on the customer
- reducing costs to continue growing profitably in a margin compressed world, and
- expanding selectively in Asia and internationally to capture new growth opportunities.

In the second half of 2016, AMP realigned the business with a new management structure to strengthen accountability for driving short-term business performance while delivering longer-term growth. This alignment across business units is supportive of the four key objectives, with a sharpened focus on effective cost and capital management to underpin short term performance.

1. Tilt investment to higher growth businesses
AMP is focused on delivering growth across the portfolio by focusing investment on higher growth, less capital intensive businesses to build on their market-leading positions.

The growth investment is being deliberately tilted towards Australian wealth management, and AMP Capital, the business lines with the greatest opportunities. Australian wealth protection, New Zealand financial services and Mature are being managed for value and efficiency.

A key priority is to grow in the expanding $2.8 trillion[1] Australian wealth management market, where it holds the number one[2] market share position in superannuation.

AMP is investing in Australian wealth management to maintain and enhance a sustainable and competitive advantage in distribution and increase its channel capacity by activating new digital and direct channels to complement our face to face advice capabilities. AMP's leading corporate superannuation business is expected to assist in driving Australian wealth management cashflows in the short and long term.

AMP Capital has demonstrated consistent and sustainable earnings growth and is focused on growing domestically while also extending its geographic reach and distribution capabilities across selected markets. Utilising its strengths in the management of real assets, AMP Capital has further opportunity to capture attractive revenues.

2. Transform
AMP is transforming its core Australian businesses to help our customers own tomorrow. While this transformation is being driven from Australian wealth management, it also encompasses AMP Bank, AMP Capital and Australian wealth protection, as AMP packages the right solutions for its customers to help them meet their goals.

Differentiate via integrated goals-based model
AMP has launched an experiential goals-based approach designed to engage existing customers and activate AMP's customer base of more than 3.7 million, particularly unadvised customers.

1 ABS Managed Funds Report, Managed Funds Industry, September 2016.
2 Fund Market Overview Retail – Marketer, Plan for Life, September 2016.

Deliver goals-based advice model of the future
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 strong network of aligned advisers. The company is rolling out its technology-enabled, goals-based advice platform to both AMP Advice and its broader adviser network. By the end of 2016, 24 practices were operating under the new AMP Advice model and are expected to deliver greater adviser productivity, increased share of customer wallet and improved advice practice profitability.

Increase channel choice
AMP is giving consumers more ways to interact with the company. It is creating an omni-channel experience with new digital and direct channels that complement its existing multi-branded face-to-face advice experience. New data and analytics infrastructure is driving customer engagement and new business across all channels.

Deliver a superior customer experience
Net promoter score (NPS) is now used across the company to objectively measure and drive ongoing improvement of customer experiences. 25% of variable employee remuneration is now based on NPS.

3. Reduce costs
AMP completed its three-year business efficiency program at the end of 2016 (delivering $200 million in pre-tax recurring run rate cost savings). The company is sustaining its business efficiency benefits by embedding more effective processes and project management, process automation and activity-based working. Operating model and organisational design changes will deliver a further round of business efficiency gains in 2017, with the aim of reducing controllable costs.

4. Expand internationally
AMP is expanding 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 champion companies in China and Japan and is capitalising on demand for its infrastructure, real estate and fixed income capabilities across Asia, Europe and North America. AMP's relationships with China Life are going from strength to strength. China Life Asset Management Company Limited is the fastest growing new asset management company in China while China Life Pension Company (CLPC) ranks first in trustee services with 29% market share and third in investment management with 12% market share.

In 2017, CLPC is set to benefit from the implementation of new regulations for Occupational Pensions (OP) in China. OP represents a significant growth opportunity for CLPC, covering around 40 million civil servant employees with 12% salary contribution and annual contributions expected to reach up to RMB200 billion. CLPC is currently competing to win this OP business across each region of China.

AMP's relationship with its Japanese partner MUTB is also being strengthened.

Strategies and prospects by business area[3]
Australian wealth management
Australian wealth management's key priorities are to:
- build customer goals-oriented business whilst remaining vigilant on cost control
- build the goals based advice model of the future and improve the quality of the advice experience
- increase channel choice
- use new capabilities to design customer centric offers covering advice, product and service
- develop a strong SMSF capability with a focus on building scale and efficiency.

3 Forward looking statements in the strategies and prospects by business area section of the Director's 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.

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:
- stabilise earnings and release capital via reinsurance
- sustain business efficiencies
- promote the new insurance offer.

New Zealand financial services
New Zealand financial services has the following key priorities to grow shareholder value:
- deepen its customer relationships
- re-engineer wealth protection to increase product attractiveness
- maximise wealth management market opportunities created by regulatory change
- evolve advice and distribution capability
- leverage the KiwiSaver opportunity
- build on our general insurance partnership
- continue its focus on cost control.

Australian mature
Key priorities for management 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 at around 6% per annum. However, 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 12 years, but will be impacted by investment markets and regulatory changes.

Key risks

Risk is inherent to our business and AMP takes measured risks to achieve our strategic objectives. We have a clear strategic plan to drive our business forward and Enterprise Risk Management framework to identify, understand and manage risks.

The Enterprise Risk Management (ERM) framework is designed to enable AMP to identify, assess, respond, monitor and review current and emerging risks that can affect our business. We recognise that effective risk management is supported by appropriate behaviour by our employees and we are committed to driving a risk aware culture. AMP's ERM framework includes a risk management strategy which establishes the principles, requirements, roles and responsibilities for the management of risk across AMP and the risk appetite statement which articulates the nature and level of risk the board is willing to accept in the pursuit of strategic objectives.

AMP's corporate strategy reflects the types of risks the board is willing to accept. The strategic risks and their impacts are identified as part of the strategic planning process.

Key risks which may impact AMP's ability to achieve its strategic objectives include:

Strategic risk

- ***Changes to the business environment:*** Our strategy is set based on existing and expected business environmental factors including business cycle, technology, customer preferences and competitive landscape. Significant changes in these environmental factors may disrupt AMP's business operations. For example, a significant change in customer preferences may impact sales volumes, revenue and customer satisfaction. AMP focuses on implementing programs to better anticipate and respond to threats and opportunities that arise from changing customer preferences and competitor strategies and capabilities.

- ***Changes in the regulatory environment:*** The financial services industry is going through a period of significant change. These changes, combined with increased attention from the media and public, have placed additional pressures on governments to make changes to existing regulations. We recognise that failure to effectively anticipate and respond to regulatory changes could adversely impact AMP's reputation and ability to achieve its strategic objectives. We manage this risk by having dedicated resources to implement required change programs and actively engage with government, regulators and industry bodies to effectively monitor and anticipate regulatory changes. We also place significant focus on our risk culture to ensure we are keeping our legal, regulatory and social responsibilities front of mind in our daily activities.

- ***Sufficient investment in operating environment:*** AMP's promise to help people own tomorrow requires changes to products, services and customer experiences. The promise has driven new approaches, models and ways of working within our business which requires modification and capability uplift to existing system infrastructure, processes and people skills and capabilities. Inadequate investment into core functions can limit our ability to achieve our strategic objectives to meet customer expectations. To manage this, we continually review, invest and monitor the adequacy of core functions of systems, processes and people to ensure that these are sufficient to support the strategic objectives.

Market risk

- ***Inadequate monitoring and management of exposure to market volatility:*** Volatility in market factors such as interest rates, equity markets or foreign exchange rates could have a negative impact on the profitability of AMP. Uncertainty in investment returns can impact on customer sentiment and may result in a reduction in capital invested and increased product switching by investors. Cash inflows to wealth management products such as superannuation and investment products may be impacted if customer appetite for discretionary savings and investment products reduces. We monitor market conditions and continually review our product offerings to ensure they are appropriately balanced to account for market volatility and changing customer needs.

Insurance risk

- ***Greater than expected insurance claims and lapse rates:*** Conditions in the Australian life insurance market have proven challenging over the past few years. AMP has experienced unfavourable insurance claims and lapse rates which impacts on earnings. This is driven by poor terminations, increasing income protection claims, a higher volume of lump sum claims and unfavourable group salary continuance claims. We are managing the volatility in insurance claims and lapse rates by redesigning insurance products and the claims processes, reducing exposure through reinsuring part of the life insurance business and strengthening our best estimate assumptions. We are also looking to manage volatility across the group by focussing on growing our business in areas where the industry has invested heavily in developing methods to measure and manage volatility such as wealth management, asset management and the banking industry.

Operational risk

- ***Effective management and implementation of change:*** AMP has invested heavily into developing new approaches, models and ways of working within the business to drive efficiency. This has resulted in significant modification or uplift to existing system infrastructure, processes and people role requirements. We recognise that failure to appropriately manage the implementation of these changes can cause disruption to AMP's business operations. To manage this, AMP has dedicated resources with appropriate skills and expertise who work with the business to establish change programs and manage the transition.

- ***Cyber risk:*** Cyber risk continues to be a focus area across all financial industries. We recognise that cyber risk will continue to increase significantly in a rapidly changing technological environment and that the magnitude and costs of a cyber-crime varies depending on the nature of the attack. We are committed to investing in enhancing our cyber security network and we have a number of detective, preventative and responsive controls to protect our assets and networks. Whilst we are committed to enhancing our cyber security network, we recognise it is inevitable that cyber-attacks will occur. In assessing and mitigating cybercrime, we regularly consider vulnerabilities and potential controls failures across people, processes and technology.

- ***Outsourcing risk:*** AMP has outsourcing arrangements with external service providers to support business functions. We recognise that poor management of outsourced services will directly impact AMP's ability to service customers and achieve strategic objectives. We are committed to ensuring that outsourced arrangements are appropriately managed and policies and processes are in place to ensure appropriate governance, management and oversight of external service providers. AMP has dedicated resources to monitor contracts, service level agreements and performance targets to ensure service deliverables are met.

- **Conduct risk*:*** AMP is committed to establishing a culture of help that reflects our values of professionalism, honesty and integrity. We see conduct risk as the risk of inappropriate, unethical or unlawful behaviour on the part of our employees. Our code of conduct outlines the minimum standards for behaviours, decision-making and our expectation for how we treat our employees, customers, business partners and shareholders. We are committed to doing the right thing and our code of conduct supports driving a strong risk aware culture. We recognise that culture drives the right behaviour and conduct within AMP and influences outcomes and the achievement of strategic objectives. AMP's approach to managing conduct risk is to educate and support staff to recognise the risk implications of their decisions, and empower our employees to speak out against instances of bad conduct.

These risks are constantly monitored, assessed and reported to the relevant committees and the board to ensure that any mitigating actions are taken appropriately.

Dividends

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

Significant changes in the state of affairs

On 13 December 2016, a deed of novation was executed resulting in the Company assuming all rights and obligations of AMP Finance Services (a fellow wholly controlled entity within the AMP Group) relating to loan facility agreements.

Other than the execution of the deed of novation, 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 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 Corporations Instrument 2016/191, amounts in this directors' report and the accompanying financial report have been rounded off to the nearest million Australian dollars, unless stated otherwise.

Auditor's independence

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

Signed in accordance with a resolution of the directors.

James Georgeson

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Director

Sydney, 3 April 2017

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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 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney
3 April 2017

AMP Group Finance Services Limited

ABN 95 084 247 914

Financial report

for the year ended 31 December 2016

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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.

AMP Group Finance Services Limited

Statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 $m	2015 $m
Interest income	3	42.3	64.8
Interest expense	3	(45.3)	(57.0)
Net interest income (expense)		(3.0)	7.8
Net foreign exchange gain (loss) on loans - related		-	9.3
Foreign exchange losses on borrowings and subordinated debt		8.5	(4.6)
Derivatives gains (losses) - related		0.5	10.0
Derivatives gains (losses) - other		(19.8)	(43.1)
Other income		0.4	1.2
Write off of receivables - related		(322.0)	-
Operating expenses		(0.8)	(0.2)
Loss for the year before income tax		**(336.2)**	**(19.6)**
Income tax credit	4	4.3	5.9
Loss for the year		**(331.9)**	**(13.7)**
Total comprehensive loss for the year		**(331.9)**	**(13.7)**

AMP Group Finance Services Limited

Statement of financial position

for the year ended 31 December 2016

	Note	2016 $m	2015 $m
Current assets			
Cash and cash equivalents		66.8	201.9
Negotiable certificates of deposit		109.5	49.7
Receivables - related		1,544.7	880.5
Receivables - other		5.9	5.3
Investments in financial assets measured at fair value through profit or loss - related		26.0	-
Derivative financial assets - related		0.6	0.0
Derivative financial assets - other		85.4	97.7
Intercompany tax receivable from head entity		4.3	5.9
Total current assets		**1,843.2**	**1,241.0**
Total assets		**1,843.2**	**1,241.0**
Current liabilities			
Payables - related		1,387.0	216.2
Payables - other		0.7	0.6
Collateral deposits held		64.6	62.1
Borrowings		113.8	-
Subordinated debt	5	-	600.1
Derivative financial liabilities - other		45.6	36.8
Total current liabilities		**1,611.7**	**915.8**
Non-current liabilities			
Borrowings		499.9	249.7
Subordinated debt	5	61.7	73.7
Total non-current liabilities		**561.6**	**323.4**
Total liabilities		**2,173.3**	**1,239.2**
Net assets		**(330.1)**	**1.8**
Equity			
Issued capital	6	One dollar	One dollar
Retained earnings (accumulated losses)		(330.1)	1.8
Total equity		**(330.1)**	**1.8**

AMP Group Finance Services Limited

Statement of changes in equity

for the year ended 31 December 2016

	Issued capital	Retained earnings (accumulated losses) $m	Total shareholder equity $m
2016			
Balance at the beginning of the year	One dollar	1.8	1.8
Loss	-	(331.9)	(331.9)
Total comprehensive loss	-	(331.9)	(331.9)
Balance at the end of the year	**One dollar**	**(330.1)**	**(330.1)**
2015			
Balance at the beginning of the year	One dollar	15.5	15.5
Loss	-	(13.7)	(13.7)
Total comprehensive loss	-	(13.7)	(13.7)
Balance at the end of the year	**One dollar**	**1.8**	**1.8**

AMP Group Finance Services Limited

Statement of cash flows

for the year ended 31 December 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Interest and other items of a similar nature received		**43.5**	70.8
Interest paid and other finance costs		**(46.0)**	(56.5)
Other items		**(0.5)**	1.0
Receipts from head entity for tax funding liabilities		**5.9**	(2.6)
Cash flows from operating activities before changes in operating assets and liabilities	7	**2.9**	12.7
Changes in operating assets and liabilities arising from cashflow movements			
Decrease (increase) in receivables - related		**(987.2)**	238.4
Increase (decrease) in payables - related		**1,171.1**	178.4
Derivative financial assets / liabilities		**0.7**	(98.0)
Collateral deposits received		**2.5**	62.1
Repayment of subordinated debt		**(600.0)**	-
Proceeds from borrowings		**360.7**	-
Repayment of borrowings		**-**	(203.8)
Cash flows from (used in) operating activities		**(49.3)**	189.8
Cash flows from investing activities			
Investments in financial assets measured at fair value through profit or loss - related		**(26.0)**	-
Purchase of negotiable certificate of deposit		**(59.8)**	(49.7)
Cash flows from (used in) Investing activities		**(85.8)**	(49.7)
Net increase (decrease) in cash and cash equivalents		**(135.1)**	140.1
Cash and cash equivalents at the beginning of the year		**201.9**	61.8
Cash and cash equivalents at the end of the year		**66.8**	201.9

Notes to the financial statements

for the year ended 31 December 2016

1. Basis of preparation and summary of significant accounting policies

AMP Group Finance Services Limited ("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.

The Company operated wholly in one segment.

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. The Company 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 the Company for the year ended 31 December 2016 were authorised for issue on 3 April 2017 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.

Australian Accounting Standards issued but not yet effective
A number of new accounting standards and amendments have been issued but are not yet effective, none of which have been early adopted by the Company in this financial report:

- AASB 9 *Financial Instruments* (AASB 9) is effective for periods beginning on 1 January 2018. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected loss model when recognising expected credit losses on financial assets, and also introduces new general hedge accounting requirements. The Company is currently undertaking an assessment of the potential impact of this standard. The Company is not considering early adopting AASB 9.

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

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

Negotiable Certificate of Deposit
The Negotiable Certificate of Deposit is initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. These assets are subsequently recognised at amortised cost using the effective interest rate method.

Receivables - related
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.

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 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.

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
There are no temporary differences requiring recognition of deferred tax assets or deferred tax liabilities.

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.

1. Basis of preparation and 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 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.

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 Statement of Comprehensive Income 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. 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.

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

k) Interest income and expense

Interest income and expense for all financial instruments measured at amortised cost is recognised in the Statement of Comprehensive Income 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 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.

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 9.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2016

3. Net interest income

	2016 $m	2015 $m
Interest Income		
Interest received - related	18.9	44.6
Interest received - other	4.3	3.5
Derivative interest received - other	19.1	16.7
Total interest income	**42.3**	**64.8**
Interest expense on borrowings and subordinated debt		
Interest expense - related	(8.5)	(3.9)
Interest expense - other	(28.9)	(47.5)
Derivative interest expense - other	(7.9)	(5.6)
Total interest expense	**(45.3)**	**(57.0)**

4. Income tax

	2016 $m	2015 $m
Relationship between income tax and accounting profit		
Loss from continuing operations before income tax	(336.2)	(19.6)
Prima facie tax credit at 30% (2015: 30%)	100.9	5.9
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/taxable in calculating taxable income:		
- Non-deductible write off of receivables - related	(96.6)	-
Income tax credit per Statement of comprehensive income	**4.3**	**5.9**

5. Subordinated debt

	2016 $m	2015 $m
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	61.7	73.7
Floating Rate Subordinated Unsercured Notes (first call date 2016, maturity 2021)[1]	-	600.1
Total Subordinated debt	**61.7**	**673.8**

1 The subordinated debt was redeemed on 29 March 2016.

6. Issued capital

	2016	2015
Total issued capital		
1 (2015: 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.

7. Notes to the Statement of cash flows

	2016 $m	2015 $m
(a) Reconciliation of the net loss after income tax to cash flows from operating activities		
Net loss after income tax	(331.9)	(13.7)
Movement in tax asset / liability balances	1.6	(8.5)
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.	281.0	212.0
Net cash flows from (used in) operating activities	(49.3)	189.8
(b) Reconciliation of cash and cash equivalents		
Cash balance comprises:		
- Cash at bank	12.2	85.9
- Short term deposits	54.6	116.0
Balance at end of the year	66.8	201.9
(c) Financing arrangements		
(i) Syndicated loan facilities:		
- Available	750.0	500.0
- Used	(500.0)	(250.0)
Unused	**250.0**	**500.0**
(ii) Funding programs available:		
- Available	12,583.0	12,583.0
- Used[1]	(2,108.0)	(2,107.0)
Unused	**10,475.0**	**10,476.0**

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.

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 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
Sections (c) and (d) below show 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*. AMP GFS primarily invests in a cash fund or in cash-like assets. The interest rate risk sensitivity analysis shows 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 and pound sterling denominated fixed-rate and floating-rate facilities. 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, 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.

8. Risk management and financial instruments information (continued)

	2016		2015	
	Impact on profit and loss after tax Increase (decrease)	Impact on equity Increase (decease)	Impact on profit and loss after tax Increase (decrease)	Impact on equity Increase (decrease)
Change in variables	**$m**	**$m**	**$m**	**$m**
-100 basis points	53.2	53.2	50.0	50.0
+100 basis points	(19.2)	(19.2)	(28.1)	(28.1)

(d) Currency risk
AMPGFS issues subordinated debt in pound sterling. The company manages its risk by entering into cross currency swaps. There is no other material exposure to 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.

As set out in Note 14, AMP Group Holdings Limited (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 the AMP Group.

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 2016	Up to 1 Year or no term	1 to 5 Years	Over 5 Years	Total
	$m	$m	$m	$m
Financial liabilities				
Payables - related parties	1,387.0	-	-	1,387.0
Payables - other	0.7	-	-	0.7
Collateral deposits held	64.6	-	-	64.6
Borrowings	129.6	518.2	-	647.8
Subordinated debt	4.2	16.7	63.4	84.3
Derivative financial instruments				
Cross currency swaps:				
- Outflows	3.2	12.5	2.0	17.7
- Inflows	(1.2)	(4.7)	(0.8)	(6.7)
Interest rate swaps	3.6	13.2	-	16.8
Total undiscounted financial liabilities	1,591.7	555.9	64.6	2,212.2

31 December 2015	Up to 1 Year or no term	1 to 5 Years	Over 5 Years	Total
	$m	$m	$m	$m
Financial liabilities				
Payables - related parties	216.2	-	-	216.2
Payables - other	0.8	-	-	0.8
Collateral deposits held	62.1	-	-	62.1
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	905.1	296.0	86.0	1,287.1

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.

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 and amounts receivable from related parties.

In relation to financial assets other than amounts receivable from related parties in the AMP Group, 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.

Amounts receivable from related parties in the AMP Group are managed as part of the broader AMP Group's enterprise risk management framework. As set out in Note 14, AMP Group Holdings Limited (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 the AMP Group.

In relation to financial assets other than amounts receivable from related parties, 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 capital position are managed by AMP Treasury within limits set by the AMP Concentration Risk Policy.

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 Statement of comprehensive income 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 the Company 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 the Company 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.

- Option – an option contract gives the option buyer the right, but not the obligation, to buy or sell a specified amount of a financial instrument at a specified price during a certain period or on a specific date. The seller of the option contract is obliged to perform if the holder exercises the right contained therein. Options may be traded OTC or on a regulated exchange.

- Swaption – an option contract that gives the buyer the right, but not the obligation, to enter into a swap agreement with the issuer on a specified future date.

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.

Collateral

AMPGFS has collateral arrangements in place with some counterparties in addition to collateral deposits held with respect to derivative contracts. Collateral generally consists of 11am loans and deposits and is exchanged between the counterparties to reduce the exposure from the net fair value of derivative assets and liabilities between the counterparties. As at 31 December 2016 there was $64.6m of collateral deposits due to other financial institutions (2015: $62.1m).

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 master agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all such outstanding transactions under that ISDA master agreement.

An ISDA master 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 2016, if these netting arrangements were applied to the derivative portfolio, the derivative assets of $86.0m would be reduced by $17.9m to the net amount of $68.1m and derivative liabilities of $45.6m would be reduced by $17.9m to the net amount of $27.7m (31 December 2015: derivative assets of $97.7m would be reduced by $21.6m to the net amount of $76.1m and derivative liabilities of $36.8m would be reduced by $21.6m to the net amount of $15.2m).

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 2016 $m	Aggregated fair value 2016 $m	Carrying amount 2015 $m	Aggregated fair value 2015 $m
Financial assets				
Receivables	1,550.6	1,550.6	885.8	885.8
Negotiable certificate of deposit	109.5	109.5	49.7	49.7
Total financial assets	**1,660.1**	**1,660.1**	**935.5**	**935.5**
Financial liabilities				
Payables	1,387.7	1,387.7	217.0	217.0
Borrowings	613.7	614.7	249.7	251.0
Subordinated debt	61.7	64.1	673.8	678.4
Total financial liabilities	**2,063.2**	**2,066.5**	**1,140.5**	**1,146.4**

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 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.

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. Valuation techniques include net present value techniques, discounted cash flow models and comparison to quoted market prices or dealer quotes for similar instruments.

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.

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 Company 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 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.

As set out in Note 14, AMP Group Holdings Limited (AMPGH) has entered into a Deed of Financial Support whereby AMPGH will provide liquidity support as may be required (after taking into account all assets, liabilities and cashflow requirements of the Company) to ensure that the Company is able to meet its liabilities (including contingent liabilities) at the time when they become due and payable.

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

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.

(c) Novation of debt contracts

On 13 December 2016, a deed of novation was executed resulting in the Company assuming all rights and obligations of AMP Finance Services (a fellow wholly controlled entity within the AMP Group) relating to loan facility agreements. At 31 December 2016, the balances with counterparties is $1,544m ‘receivables – related’ and $1,387m ‘payables – related’.

This novation resulted in the Company assuming all rights and obligations of AMP Finance Services in respect of the relevant intercompany loans at the date of the novation, other than an amount owing from AMP Finance Services to the Company of $322m. This outstanding balance was written off.

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.

14. Financial support

The Company incurred an operating loss after tax for the financial year ended 31 December 2016 of $331.9m and at that date, had a net asset deficiency of $330.1m. The Company’s ability to continue is dependent upon the continued financial support of its related company, AMP Group Holdings Limited (AMPGH), which has entered into arrangements with the Company whereby AMPGH will provide liquidity support as may be required (after taking into account all assets, liabilities and cashflow requirements of the Company) to ensure that the Company is able to meet its liabilities (including contingent liabilities) at the time when they become due and payable.

AMP Group Finance Services Limited

Directors' declaration

for the year ended 31 December 2016

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 2016 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 2016 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

....

Director

Sydney, 3 April 2017

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Independent Auditor's Report

To the Members of AMP Group Finance Services Limited

Report on the Audit of the Financial Report

Opinion

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

In our opinion the accompanying financial report of the Company is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

Company's net liability position as at 31 December 2016

Why significant	How our audit addressed the key audit matter
In December 2016 the Company entered into an Intercompany Loan Facilities Deed of Novation with several other related entities, all part of the AMP Limited Group. The transaction resulted in a $322.0 million write off of a receivable from an AMP related entity. As a result, the Company is in a net liability position of $330.1 million as at 31 December 2016 and consideration of the Directors' going concern assessment was a key audit matter. Refer to the note 14 for disclosure relating to the Company's net liability position at 31 December 2016 and the Directors' going concern assessment.	In obtaining sufficient audit evidence we: ► Read and considered the Intercompany Loan Facilities Deed of Novation and assessed how the company accounted for it; ► Read and considered the Financial Support Deed between AMP Group Holdings and the Company; ► Assessed the ability of AMP Group Holdings to provide financial support to the Company in order to meet its liabilities (including contingent liabilities) from 12 months of the date of the financial statements; and ► Assessed the adequacy of the disclosure included in the financial statements.

Information Other than the Financial Statements and Auditor's Report

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney
3 April 2017