AMP Group Finance Services Limited

ABN 95 084 247 914

Directors' report and Financial report for the year ended 31 December 2011

AMP Group Finance Services Limited

Directors' report

for the year ended 31 December 2011

The directors of AMP Group Finance Services Limited ("the Company") present their report for the financial year ended 31 December 2011.

Directors

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

Colin Storrie	(Chairman) appointed 18 February 2011
Simon Hoole	
David Rowe	(appointed 16 December 2011)
Paul Leaming	(resigned 31 December 2011)
Brian Salter	(resigned 21 February 2011)

Principal activities

The principal activities of the Company during the year were to raise finance and enter into derivative transactions for the AMP Limited 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 2011 was a net profit after tax of $4.6m (2010: $6.5m).

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 end of the year that has significantly affected or may significantly affect the operations of the Company, the results of its operations or its state of affairs which is not already reflected in this report.

Likely developments

In the opinion of the directors, disclosure of further information about likely developments in the Company's business is commercially sensitive and would likely be detrimental and result in unreasonable prejudice to the Company.

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 Limited group against liability incurred in their capacity as an employee unless approved by the Board of AMP Limited. No such indemnities have been provided during or since the end of the financial year.

During the financial year, AMP Limited agreed to insure all of the officers of the Company (including all directors) 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.

Directors' report (continued)

for the year ended 31 December 2011

Indemnification and insurance of directors and officers (continued)

AMP Group Holdings Limited (AMPGH) has entered into a Deed of Indemnity and Access with each director of the Company. Each Deed of Indemnity and Access provides that:

- the directors will have access to the books of the Company for their period of office and for seven years after they cease to hold office
- the Company indemnifies the directors to the extent permitted by law;
- the indemnity covers liabilities incurred by the directors in their capacity as officers of the Company and other AMP Limited group companies; and
- AMPGH will maintain directors' and officers' insurance cover, to the extent permitted by law, for the period of their office and for seven years after they cease to hold office.

Rounding

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

Auditor's independence

The directors have obtained an independence declaration from the Company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the directors' report for the year ended 31 December 2011.

Signed in accordance with a resolution of the directors.

.....

Colin Storrie
Director

.....

Simon Hoole
Director

Sydney, 27 February 2012

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

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

In relation to our audit of the financial report of AMP Group Finance Services Limited for the financial year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Andrew Price
Partner
Sydney
27 February 2012

Liability limited by a scheme approved
under Professional Standards Legislation

AMP Group Finance Services Limited

ABN 95 084 247 914

Financial report

for the year ended 31 December 2011

Contents

INCOME STATEMENT 1

STATEMENT OF COMPREHENSIVE INCOME 2

STATEMENT OF FINANCIAL POSITION 3

STATEMENT OF CHANGES IN EQUITY 4

STATEMENT OF CASH FLOWS 5

NOTES TO THE FINANCIAL STATEMENTS 6

1. CORPORATE INFORMATION 6
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 6
3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS 12
4. NET INTEREST INCOME 13
5. INCOME TAX 14

6A. INVESTMENT LOSSES 14

6B. OTHER INCOME 15

7. OPERATING EXPENSES 15
8. CASH AND CASH EQUIVALENTS 15
9. DEBT SECURITIES 15
10. OTHER ASSETS 15
11. BORROWINGS 16
12. SUBORDINATED DEBT 16
13. OTHER LIABILITIES 16
14. ISSUED CAPITAL 17
15. NOTES TO THE STATEMENT OF CASH FLOWS 17
16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION 18
17. CAPITAL MANAGEMENT 25
18. RELATED PARTY DISCLOSURES 26
19. AUDITORS' REMUNERATION 27
20. NEW ZEALAND DEBT EXCHANGE REPORTING 27
21. EVENTS OCCURRING AFTER THE REPORTING DATE 27

DIRECTORS' DECLARATION 28

INDEPENDENT AUDITOR'S REPORT 29

Registered Office:
Level 24, 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.

Income statement

for the year ended 31 December 2011

	Note	2011 $m	2010 $m
Interest income	4	136.1	109.5
Interest expense	4	(129.2)	(100.6)
Net interest income		6.9	8.9
Investment losses	6a	(8.7)	(91.3)
Other income	6b	8.5	91.7
Operating expenses	7	(0.2)	(0.1)
Income tax expense	5	(1.9)	(2.7)
Profit		**4.6**	**6.5**

Statement of comprehensive income

for the year ended 31 December 2011

	2011 $m	2010 $m
Profit	4.6	6.5
Other comprehensive income recognised in reserves:		
Cash flow hedges [1]		
- losses in fair value of cash flow hedges	(8.5)	(2.6)
- income tax credit	2.5	0.8
- transferred from (to) profit for the period	(0.6)	-
- transferred from (to) profit for the period - income tax credit	0.2	-
Total comprehensive income	**(1.8)**	**4.7**

Footnote:

(1) Cash flow hedge movements are in respect of interest rate swaps used to manage the Company's interest rate risk on the subordinated debt (A$ AMP Notes) issued by the Company.

Statement of financial position

as at 31 December 2011

	Note	2011 $m	2010 $m
Assets			
Cash and cash equivalents	8	96.4	117.5
Debt securities	9	-	209.7
Derivative financial assets		3.2	8.1
Loans to related parties		1,586.9	1,145.0
Deferred tax assets	5	36.3	32.6
Other assets	10	0.6	0.6
Total assets		**1,723.4**	**1,513.5**
Liabilities			
Derivative financial liabilities		6.3	2.2
Loans from related parties		131.8	355.9
Intercompany tax payable to head entity		10.0	4.5
Borrowings	11	584.7	749.6
Subordinated debt	12	944.4	343.4
Deferred tax liabilities	5	26.8	36.7
Other liabilities	13	0.2	0.2
Total liabilities		**1,704.2**	**1,492.5**
Net assets		**19.2**	**21.0**
Equity			
Issued capital	14	-	-
Reserves		(2.3)	4.1
Retained earnings		21.5	16.9
Total equity		**19.2**	**21.0**

Statement of changes in equity

for the year ended 31 December 2011

	Contributed equity	Cash flow hedge reserve[1]	Retained earnings	Total equity
	$m	$m	$m	$m
2011				
Balance at the beginning of the period	-	4.1	16.9	21.0
Profit	-	-	4.6	4.6
Other comprehensive income	-	(6.4)	-	(6.4)
Total comprehensive income	-	(6.4)	4.6	(1.8)
Balance at the end of the period	**-**	**(2.3)**	**21.5**	**19.2**
2010				
Balance at the beginning of the period	-	5.9	10.4	16.3
Profit	-	-	6.5	6.5
Other comprehensive income	-	(1.8)	-	(1.8)
Total comprehensive income	-	(1.8)	6.5	4.7
Balance at the end of the period	**-**	**4.1**	**16.9**	**21.0**

Footnote:

(1) The cash flow hedge reserve represents the cumulative impact of changes in the fair value of derivatives designated as cash flow hedges which are classified as effective for hedge accounting. Hedge gains and losses are transferred to the income statement when they are deemed ineffective or upon realisation of the cash flow.

Statement of cash flows

for the year ended 31 December 2011

	Note	2011 $m	2010 $m
Cash flows from (used in) operating activities			
Interest received		132.2	109.1
Interest paid		(113.0)	(89.5)
Cash payments in the course of operations		(0.2)	(0.1)
(Payments) Receipts from head entity for tax funding liabilities		(7.5)	3.7
Cash flows from (used in) operating activities before changes in operating assets and liabilities		**11.5**	**23.2**
Changes in operating assets and liabilties arising from cash flow movements			
Net funds received (paid) with respect to:			
Loans to related parties		(446.5)	51.6
Other assets		-	0.1
Deposits from related parties		-	(6.2)
Loans from related parties		(239.8)	(30.2)
Borrowings		(156.3)	(78.8)
Subordinated debt		600.0	-
Other liabilities		-	(0.2)
Cash flows from (used in) operating activities	15(a)	**(231.1)**	**(40.5)**
Cash flows from investing activities			
Movement in debt securities with related parties:			
Purchases		-	(200.0)
Proceeds on maturity		200.0	200.0
Movement in debt securities with external parties:			
Purchases		(1,405.6)	(841.6)
Proceeds on maturity		1,415.6	886.4
Cash flows from investing activities		**210.0**	**44.8**
Net increase (decrease) in cash and cash equivalents		(21.1)	4.3
Cash and cash equivalents at the beginning of the period		117.5	113.2
Cash and cash equivalents at the end of the period	15(b)	**96.4**	**117.5**

Notes to the financial statements

for the year ended 31 December 2011

1. Corporate information

The financial report of AMP Group Finance Services Limited ("the Company") for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 27 February 2012.

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

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

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

2. Summary of significant accounting policies

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the Corporations Act 2001.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items.

The financial report has been prepared on a historical cost basis, except for those items which have been measured at their fair value as noted below.

The financial report has been rounded to the nearest hundred thousand Australian dollars, unless stated to be otherwise.

Changes in accounting policy
Since 1 January 2011, the Company has adopted a number of Australian Accounting Standards and Interpretations which are mandatory for annual periods beginning on or after 1 January 2011. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the Company.

The main standards adopted since 1 January 2011 were:

- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. These standards make a series of minor amendments to various accounting standards. There is no impact on the disclosures in relation to this Company.
- Revised AASB 124 *Related Party Disclosures*: this revised standard includes some minor modifications to the definition of a related party which has resulted in no change to the transactions and balances which are required to be disclosed in the notes to the financial statements.

Notes to the financial statements (continued)

for the year ended 31 December 2011

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Australian Accounting Standards issued but not yet effective

A number of new accounting standards and amendments have been issued but are not yet effective. The Company has not elected to early adopt any of these new standards or amendments in this financial report. 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 Company other than the following:

- AASB 9 *Financial Instruments*: This standard makes significant changes to the way financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity. AASB 9 is mandatory for adoption by the Company in the year ending 31 December 2013. The financial impact to the Company of adopting this standard has not yet been quantified.

- AASB 13 *Fair Value Measurement:* This standard centralises the definition and guidance for calculating fair values where required to be applied by various other accounting standards and removes some minor inconsistencies that previously existed between the guidance for determining fair value in these standards. The new standard requires quantitative and qualitative disclosures of all fair value measurements. AASB 13 is mandatory for adoption by the Company in the year ending 31 December 2013. The financial impact on the Company of adopting AASB 13 has not yet been quantified.

- Revised AASB 101 *Presentation of Financial Statements:* This standard requires items in the Statement of comprehensive income to be segregated between those that will be eventually realised in the Income statement in future periods and those that will not. The revised AASB 101 is mandatory for adoption by the Company in the year ending 31 December 2013. The changes to AASB 101 relate to presentation only and are not expected to have a financial impact on the Company.

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. These amounts are recognised at the face value or gross value of the outstanding balance. Interest is taken to the Income statement using the effective interest method when earned.

c) Financial assets

Debt securities

All debt securities are classified as held to maturity investments. Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Held to maturity investments are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Loans to related parties

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

Notes to the financial statements (continued)

for the year ended 31 December 2011

2. Summary of significant accounting policies (continued)

d) Recognition and derecognition of financial assets and financial liabilities

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

e) Impairment of assets

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

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

Other non financial assets
The carrying amounts of the Company's other non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indicator exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less cost to sell or value in use. An impairment expense is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income statement.

A previously recognised impairment loss is reversed if there has been a positive change in the estimates used to determine the recoverable amount. However, the reversal is not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior periods.

f) Other assets

Other assets are initially recognised at fair value and subsequently measured at amortised cost. Other assets comprise interest receivable on financial derivatives.

g) 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 subsidiaries 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. Controlled entities in the tax-consolidated group will 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.

Notes to the financial statements (continued)

for the year ended 31 December 2011

2. Summary of significant accounting policies (continued)

g) Taxes (continued)

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, and
- unused tax losses.

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

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

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

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

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

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

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as 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.

h) Financial liabilities

Financial liabilities comprise the following:

Borrowings and subordinated debt
All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value, net of directly attributable incremental 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 life of the financial liability using the effective interest method.

Notes to the financial statements (continued)

for the year ended 31 December 2011

2. Summary of significant accounting policies (continued)

h) Financial liabilities (continued)

Other liabilities and payables

Other liabilities 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.

i) Derivative financial assets, derivative financial liabilities and hedging

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

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at their fair value. All derivatives recognised as assets when fair value is positive and as liabilities when 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 to 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.
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income statement.

Derivatives that do not quality for hedge accounting

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

Fair value estimation

The fair value of financial instruments 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.

j) Offsetting financial instruments

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

Notes to the financial statements (continued)
for the year ended 31 December 2011

2. Summary of significant accounting policies (continued)

k) 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.

l) 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.

m) Investment losses

Investment losses represent the net foreign exchange loss on loans to related parties.

n) 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.

o) Operating expenses

Operating expenses are expensed as incurred.

p) Other income

Other income includes:
- net foreign exchange gains / (losses) on borrowings and subordinated debt
- gains / (losses) from changes in the fair value of derivatives that are not in a cash flow hedge relationship or are not effective cash flow hedging instruments.

Notes to the financial statements (continued)
for the year ended 31 December 2011

3. Significant accounting judgments, estimates and assumptions

The making of judgments, estimates and assumptions is a necessary part of the financial reporting process and these judgments 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 light of historical experience and changes to reasonable expectations of future events. Significant accounting judgments, 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. Further detail on the determination of fair values of financial instruments is set out in note 16.

(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 2011

4. Net interest income

	2011 $m	2010 $m
Interest income		
Cash	7.4	5.6
Debt securities with external parties	5.2	3.6
Debt securities with related parties	3.1	1.2
Derivatives	2.2	6.7
Loans to related parties	118.2	92.4
Total interest income	**136.1**	**109.5**
Interest expense		
Derivatives	(1.6)	(4.5)
Borrowings	(44.2)	(52.4)
Loans from related parties	(15.8)	(10.2)
Subordinated debt	(67.6)	(33.5)
Total interest expense	**(129.2)**	**(100.6)**
Net interest income	**6.9**	**8.9**

Notes to the financial statements (continued)

for the year ended 31 December 2011

5. Income tax

	2011 $m	2010 $m
Income tax expense		
Current income tax charge	(12.8)	(4.5)
Deferred income tax	10.9	1.8
Total income tax expense	**(1.9)**	**(2.7)**
Deferred income tax credit included in income tax expense comprises:		
(Decrease) Increase in deferred tax assets	3.7	23.6
Decrease (Increase) in deferred tax liabilities	9.9	(21.0)
Amount recognised directly in equity	(2.7)	(0.8)
Aggregate deferred tax expense	**10.9**	**1.8**
Reconciliation between income tax expense and accounting profit		
Profit before income tax per income statement	6.5	9.2
Prima facie tax at the rate of 30% (2010: 30%)	(1.9)	(2.7)
Income tax expense per income statement	**(1.9)**	**(2.7)**
Amounts recognised in equity		
Gains (losses) on revaluation of cash flow hedge reserve	(2.7)	(0.8)
Total income tax expenses recognised directly in equity	**(2.7)**	**(0.8)**
Analysis of deferred tax assets		
Fair value of derivatives	1.4	0.6
Revaluation of loans to related parties	34.9	32.0
Total deferred tax assets	**36.3**	**32.6**
Analysis of deferred tax liabilities		
Fair value of derivatives	1.1	2.4
Revaluation of borrowings and subordinated debt	24.4	32.5
Other	1.3	1.8
Total deferred tax liabilities	**26.8**	**36.7**

Taxation of financial arrangements

The new Australian legislation for financial arrangements, Taxation of financial arrangements (TOFA), applied to the tax-consolidated group from 1 January 2011. Subject to certain elections being made, TOFA aims to align tax and accounting recognition and measurement of financial arrangements and their related flows. Elections in relation to calculation methodology and transitional application of the legislation for the tax-consolidation group were made on 13 July 2011.

Deferred tax balances for financial arrangements that existed on adoption at 1 January 2011 will be reversed over a four year period under the TOFA transitional election.

6a. Investment losses

	2011 $m	2010 $m
Net foreign exchange loss on loans to related parties	(8.7)	(91.3)
Total investment losses	**(8.7)**	**(91.3)**

Notes to the financial statements (continued)
for the year ended 31 December 2011

6b. Other income

	2011 $m	2010 $m
Net foreign exchange gain on borrowings	8.6	74.6
Net foreign exchange gain (loss) on subordinated debt	(0.1)	15.5
Net gain on movement in the fair value of derivatives	-	0.9
Net foreign exchange gain on deposits from related parties	-	0.7
Total other income	**8.5**	**91.7**

7. Operating expenses

	2011 $m	2010 $m
Administrative expenses	(0.2)	(0.1)
Total operating expenses	**(0.2)**	**(0.1)**

8. Cash and cash equivalents

	2011 $m	2010 $m
Cash at bank	0.4	1.0
Short term deposits	96.0	116.5
Total cash and cash equivalents	**96.4**	**117.5**

9. Debt securities

	2011 $m	2010 $m
Debt securities with external parties - held to maturity	-	10.0
Debt securities with related parties - held to maturity	-	199.7
Total debt securities[1]	**-**	**209.7**

Footnote:
(1) Debt securities of nil (2010: $209.7m) are current assets.

10. Other assets

	2011 $m	2010 $m
Interest receivable	0.6	0.6
Total other assets[1]	**0.6**	**0.6**

Footnote:
(1) Other assets of $0.6m (2010: $0.6m) are current assets.

Notes to the financial statements (continued)

for the year ended 31 December 2011

11. Borrowings

	2011 $m	2010 $m
Bonds and notes	584.7	749.6
Total borrowings[1] [2]	**584.7**	**749.6**

Footnotes:

(1) Borrowings are measured at amortised cost, net of capitalised borrowing costs and are converted at reporting date exchange rate, and comprise the following:

- *3.375% EUR254m bonds maturing on 29 June 2012.*
- *Fixed notes of $200m maturing on 2 March 2015. Interest payable is 7%.*
- *Commercial paper of $59m (2009: $59m) is repayable within 3 months.*
- *Fixed notes of $175m and floating rate notes of $175m matured on 16 May 2011.*

(2) Borrowings of $393.1m (2010: $67.9m) are current liabilities and $191.6m (2010: $681.7m) are non-current liabilities.

12. Subordinated debt

	2011 $m	2010 $m
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	55.2	55.2
Floating Rate Subordinated Unsecured Notes (first call date 2016, maturity 2021)[1][2]	599.4	-
A$ AMP notes (first call date 2014,maturity 2019)[3]	202.2	201.2
NZ$ AMP notes (first call date 2014,maturity 2019)[3]	87.6	87.0
Total subordinated debt[4]	**944.4**	**343.4**

Footnotes:

(1) During the year, new subordinated debt of $600m was issued. The balance is after deductions of capitalised borrowing costs.

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

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

(4) Subordinated debt amounts are to fund corporate activities of the AMP Limited Group. Of this balance, all (2010: all) is expected to be settled more than 12 months from the reporting date.

13. Other liabilities

	2011 $m	2010 $m
Interest payable	0.2	0.2
Total other liabilities[1]	**0.2**	**0.2**

Footnote:

(1) Other liabilities of $0.2m (2010: $0.2m) are current liabilities.

Notes to the financial statements (continued)
for the year ended 31 December 2011

14. Issued capital

	2011	2010
Issued capital		
1 (2009: 1) ordinary share, fully paid	One Australian dollar	One Australian 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.

15. Notes to the Statement of cash flows

(a) Reconciliation of the profit after tax to the net cash flows used in operating activities

	2011 $m	2010 $m
Profit after tax	4.6	6.5
(Deduct)/add non cash items in the income statement:		
(Increase) decrease in interest receivable	(3.9)	(0.5)
Increase (decrease) in interest payable	4.6	(3.2)
Amortisation of borrowings and subordinated debt	5.1	8.0
Net foreign exchange gain (loss)	0.2	(0.3)
Fair value movements:		
Derivatives held at fair value	9.0	7.1
(Increase) decrease in deferred tax assets	(3.7)	(23.6)
Increase (decrease) in deferred tax liabilities	(9.9)	21.0
Increase in intercompany tax payable to head entity	5.5	4.5
(Increase) decrease in intercompany tax receivable from head entity	-	3.7
Changes in operating assets and liabilities arising from cash flow movements	(242.6)	(63.7)
Net cash flows used in operating activities	**(231.1)**	**(40.5)**

(b) Reconciliation of cash and cash equivalents

Cash balance comprises:		
- Cash at bank	0.4	1.0
- Short term deposits	96.0	116.5
Balance at end of the period	**96.4**	**117.5**

(c) Financing arrangements

(i) Loan facilities:		
- Available	1,500.0	500.0
- Used	-	-
Unused	**1,500.0**	**500.0**

(ii) Bond, commercial paper and note funding programs:		
- Available	7,817.9	8,758.0
- Used	(1,524.9)	(1,086.0)
Unused	**6,293.0**	**7,672.0**

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information

Financial Risk Management

The principal activities of the Company during the year were to raise finance and enter into derivative transactions for the AMP Limited Group.

The Company's risk management is a function and part of the AMP Limited Board.

The principal objective of the AMP Limited Group Financial Risk Management Framework (FRM Framework) is to ensure the existence of a robust structure for identifying, assessing, measuring, managing and escalating risks. The FRM Framework operates under the AMP Limited Group risk appetite statement that includes consideration of risk to capital and risk to earnings.

FRM in the AMP Limited Group is managed in accordance with policies set by the AMP Limited Board (the Board). These policies are set out in the FRM Framework and this provides a structure for managing financial risks including delegations, escalations and reporting. The FRM Framework also outlines AMP Limited Group's FRM objectives and identifies organisational responsibilities for the implementation of the FRM Framework. In addition, the FRM Framework provides an overview of each of the key financial risks including the nature of the risks, objectives in seeking to manage the risks, the key policy variables for the management of the risks and the business unit responsibility for managing and reporting the risks.

The AMP Limited Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework and appetite is in place and that it is operating effectively. This includes approval of the FRM Framework and its sub-policies, the shareholder capital investment strategy, capital and financing plans, approval of transactions outside the FRM Framework and setting the financial risk appetite. The AMP Limited Audit Committee (AMP AC) ensures the existence of effective FRM policies and procedures, and oversight of the execution of the FRM Framework.

Executive Committees oversee the management and monitoring of financial risks and capital management. These Committees include Group Asset and Liability Committee (AMP Group ALCO) for AMP Limited Group. The Debt Committee, a sub-committee of AMP Group ALCO, also reviews and monitors debt financing risk across the AMP Limited Group.

AMP Limited Group Treasury (AMP Treasury) is responsible for the execution of the FRM Framework and capital and financing plans in compliance with Board approved targets and limits. AMP Treasury is also responsible for the execution of the approved investment strategy for AMP Limited Group shareholder capital, for analysis and reporting of financial risks and capital position to AMP Group ALCO, AMP AC and the Board, and monitoring compliance with the FRM Framework in relation to FRM and for identifying and reporting breaches of policy to AMP Group ALCO, relevant Audit Committees and the AMP Limited Board.

Internal Audit checks for compliance with the FRM Framework as part of its ongoing audit cycle. Internal Audit is required to review the effectiveness of the FRM Framework and report to the AMP AC.

Information about the capital management activities within the AMP Limited Group is provided in Note 17.

(a) Risks and mitigation

For the purposes of the FRM Framework, risk management involves decisions made about the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes.

Financial risks arising in the AMP Limited Group include market risk (interest rate risk and currency risk); liquidity and re-financing risk; and credit risk. These risks are managed according to the FRM Framework including through the use of derivative financial instruments such as cross-currency and interest rate swaps to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

Market risk is the risk that the fair value 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 Company arises from interest bearing investments and interest bearing debt.

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(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 AASB7 *'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.

(i) Interest rate risk

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

Long-term borrowings and subordinated debt
Interest rate risk arises in relation to long-term borrowings and subordinated debt raised through a combination of Australian dollar, New Zealand dollar, pound sterling and euro denominated fixed-rate and floating-rate facilities. The foreign denominated debt is converted to floating-rate Australian dollars through cross-currency swaps. 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 Company agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating interest rate amounts calculated by reference to the agreed notional principal amounts. Additionally, to manage risk the Company's debt is on-lent to a related party, AMP Finance Services Limited ("AMPFS"), on the same terms and conditions.

Interest rate risk sensitivity analysis
The 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. A sensitivity level of 100 basis points is determined considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in the Company.

	2011		2010	
	Impact on profit and loss after tax	Impact on equity	Impact on profit and loss after tax	Impact on equity
Change in variables	$m	$m	$m	$m
+100 basis points	-	3.0	-	3.9
-100 basis points	-	(3.0)	-	(4.1)

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(b) Market risk sensitivity analysis (continued)

(ii) Currency risk

Currency risk is the risk of an impact on the Company's profit after tax and equity from movements in foreign exchange rates. Changes in value would occur from foreign exchange rate movements on specific cash flow transactions (transaction risk).

All the Company's debt is converted to Australian dollars through cross-currency swaps, and expected foreign currency receipts and payments are hedged once the value and timing of the expected cash flow is known.

Currency risk sensitivity analysis
The Company is not directly exposed to any material currency risk exposures at year-end. The Company issues bonds and subordinated debt denominated in euro, pound sterling and New Zealand dollars. The currency risk is managed by the Company on-lending funds to related entities in their base currency. Any internal foreign currency loan assets of the Company are hedged with cross currency swaps to match the terms and conditions of the asset.

(c) Liquidity and re-financing risk

Liquidity risk is the risk that the Company 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, a sub-set of liquidity risk, is the risk that the maturity profile of existing debt is such that it would be difficult to refinance (or rollover) maturing debt, or there is excessive exposure to potentially unfavourable market conditions at any given time.

To ensure that the AMP Limited Group has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, AMP 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 AMP Limited Group Liquidity Risk Management Policy approved by the AMP Limited Board.

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(c) Liquidity and re-financing risk (continued)

The following table summarises the maturity profiles of the Company's undiscounted financial liabilities 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.

Maturity profile of undiscounted financial liabilities

31 December 2011	Up to 1 Year $m	1 to 5 Years $m	Over 5 Years $m	Total $m
Non-derivative financial liabilities				
Loans from related parties	(131.8)	-	-	(131.8)
Borrowings	(404.0)	(239.6)	-	(643.6)
Subordinated debt	(73.3)	(1,078.9)	(74.9)	(1,227.1)
Derivative financial instruments				
Interest rate swaps	(1.3)	(1.0)	-	(2.3)
Total undiscounted financial liabilities	**(610.4)**	**(1,319.5)**	**(74.9)**	**(2,004.8)**

31 December 2010	Up to 1 Year $m	1 to 5 Years $m	Over 5 Years $m	Total $m
Non-derivative financial liabilities				
Loans from related parties	(355.9)	-	-	(355.9)
Borrowings	(439.4)	(337.9)	-	(777.3)
Subordinated debt	(36.1)	(384.5)	(93.5)	(514.1)
Derivative financial instruments				
Interest rate swaps	(3.5)	(0.7)	-	(4.2)
Total undiscounted financial liabilities	**(834.9)**	**(723.1)**	**(93.5)**	**(1,651.5)**

(d) Credit risk

Credit risk includes settlement 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 (i.e. obligator's non-payment of a debt).

AMP Limited Group's Concentration Risk Policy sets out the assessment and determination of what constitutes credit risk for AMP Limited Group. 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 through the weekly and quarterly FRM Report.

Credit risk management is decentralised in business units within the AMP Limited Group. However, credit risk directly and indirectly impacting AMP Limited Group shareholder capital is measured and managed by AMP Treasury by aggregating risk from credit exposures taken in each business unit.

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(d) Credit risk (continued)

(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 in the AMP Limited Group 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. The Company's maximum credit exposure to any external non-sovereign and non semi government counterparty as at 31 December 2011 was $81.8m (2010: $55.3m) with an "AA" rated counterparty.

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 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 the AMP Limited Group's portfolio.

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

(ii) Exposure to credit risk

The Company's maximum exposure to credit risk on recognised financial assets, without taking account of any collateral or other credit enhancements as at the reporting date was $1,687.1m (2010: $1,480.9m).

Maximum credit exposure includes loans to related parties and interest bearing securities with related parties of $1,586.9m (2010: $1,344.7m).

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

Credit rating	2011 $m	2010 $m
AA- to AA+	96.4	121.5
A- to A+	3.2	14.1
Total financial assets with credit risk exposure managed by AMP Treasury	**99.6**	**135.6**

(e) Derivative financial instruments

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

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(e) Derivative financial instruments (continued)

AMP Treasury use derivative financial instruments to hedge financial risk from movements in interest rates and foreign exchange rates. Swaps in the interest rate and foreign exchange markets may be used.

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 AMP Limited Group 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.

The Company has entered into interest rate and cross currency swaps with external counterparties and simultaneously entered into equivalent back-to-back interest rate and cross-currency swaps with similar terms and conditions with a related entity to hedge the interest rate risk and foreign currency risk on financial liabilities of the Company. Additionally, to manage risk the Company's debt is on-lent to a related party, AMP Finance Services Limited ("AMPFS"), on the same terms and conditions.

The market risk of derivatives is managed and controlled as an integral part of the financial risk of the AMP Limited Group. The credit risk of derivatives is also managed in the context of the AMP Limited Group's overall credit risk policies.

(f) Accounting for hedges

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

Derivative transactions may qualify either as fair value hedges or cash flow hedges. The Company's accounting policies for derivatives designated and accounted for as hedging instruments are explained in note 2(i). The Company does not have any fair value hedges.

Cash flow hedges
The Company is exposed to variability in future interest cash flows on subordinated debt which bear interest at variable rates. The Company uses interest rate swaps and cash flow hedges to manage interest rate risks.

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

2011	0-1 year $m	1-2 years $m	2-3 years $m	3-4 years $m	4-5 years $m
Cash inflows	8.2	7.5	4.0	-	-
Cash outflows	(9.2)	(9.2)	(4.6)	-	-
Net cash inflows(outflows)	**(1.0)**	**(1.7)**	**(0.6)**	**-**	**-**

2010	0-1 year $m	1-2 years $m	2-3 years $m	3-4 years $m	4-5 years $m
Cash inflows	10.4	10.9	11.8	6.1	-
Cash outflows	(9.2)	(9.2)	(9.2)	(4.6)	-
Net cash inflows(outflows)	**1.2**	**1.7**	**2.6**	**1.5**	**-**

Notes to the financial statements (continued)
for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(f) Accounting for hedges (continued)

Nil (2010: Nil) was recognised in the Income statement due to hedge ineffectiveness from cash flow hedges.

(g) Fair values

The following table summarises the carrying amounts and fair value 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 2011 $m	Aggregated fair value 2011 $m	Carrying amount 2010 $m	Aggregated fair value 2010 $m
Financial assets				
Debt securities	-	-	209.7	209.7
Loans to related parties	1,586.9	1,641.2	1,145.0	1,170.0
Total financial assets	**1,586.9**	**1,641.2**	**1,354.7**	**1,379.7**
Financial liabilities				
Loans from related parties	131.8	131.8	355.9	355.9
Borrowings	584.7	602.2	749.6	758.1
Subordinated debt	944.4	1,060.5	343.4	374.3
Total financial liabilities	**1,660.9**	**1,794.6**	**1,448.9**	**1,488.3**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Debt securities
The estimated value of interest bearing securities represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the interest bearing securities. As the interest bearing securities are unlisted, the discount rates applied are based on the yield curve appropriate to the remaining term of the interest bearing securities. There are nil debt securities held by the Company at 31 December 2011.

Loans to related parties
Loans to related parties are recognised at amortised cost net of any impairment losses. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received based on the maturity profile of the loans.

The loans may be carried at an amount in excess of fair value due to fluctuations on fixed rate loans. As the fluctuations in fair value do not represent a permanent diminution and the carrying amounts of the loans are recorded at recoverable amount after assessing impairment, it is not appropriate to restate their carrying amount.

Loans from related parties
Loans from related parties are repayable at call and amounts recorded approximate the fair value at reporting date.

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 at AMP Limited Group level. 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.

Notes to the financial statements (continued)

for the year ended 31 December 2011

16. Risk management and financial instruments information (continued)

(g) Fair values (continued)

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 (at AMP Limited Group), by derivative instruments – mainly cross-currency and interest-rate swaps.

(h) Fair value measures

Financial instruments measured at fair value are categorised under a 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. The three levels are:

Level 1: Valued by reference to quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arms length basis.

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.

Level 3: Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable inputs are determined based on the best information available, which might include the AMP Limited Group's own data, reflecting the AMP Limited Group's own estimates about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available and include estimates about the timing of cash flows, discount rates, earnings multiples and other inputs.

The Company has assessed its financial instruments recorded at fair value and concluded that all of them are categorised as level 2.

17. Capital Management

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

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

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2011

18. Related party disclosures

(a) Key management personnel details

The following individuals were the key management personnel of the Company for the current and prior reporting periods (unless stated otherwise):

Name	Date of Changes to the Board during the current or prior reporting periods
Colin Storrie	appointed 18 February 2011
Simon Hoole	
David Rowe	appointed 16 December 2011
Paul Leaming	resigned 31 December 2011
Brian Salter	resigned 21 February 2011

(b) Transactions with key management personnel

The Company has no direct employees.

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

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

The following related party transactions occurred during the financial year:

i) At 31 December 2011, there were debt securities of Nil (2010: $199.7m) with related parties under normal commercial terms and conditions.

ii) Loans totalling $1,586.9m (2010: $1,145.0m) to related parties under normal commercial terms and conditions remain outstanding at 31 December 2011. The balance includes accrued interest of $17.9m (2010: $16.5m) receivable on these loans at reporting date.

iii) Intercompany tax payable of $10.0m from the head entity (2010: $4.5m) which has been disclosed separately in the Statement of financial position.

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

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

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

vii) The Company had back-to-back cross-currency swaps of notional value Nil (2010: $7.8m) and interest rate swaps of notional value $100.0m (2010: $50.0m) with a related entity.

viii) Loans totaling $131.8m (2010: $355.9m) from related parties under normal commercial terms and conditions remain outstanding at 31 December 2011. This amount includes accrued interest of $0.5m (2010: $0.8m) payable on these loans at reporting date.

Notes to the financial statements (continued)

for the year ended 31 December 2011

19. Auditor's remuneration

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

20. New Zealand debt exchange reporting

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

21. 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 end of the year that has significantly affected or may significantly affect the operations of the Company, the results of its operations or its state of affairs which is not already reflected in this report.

Directors' declaration

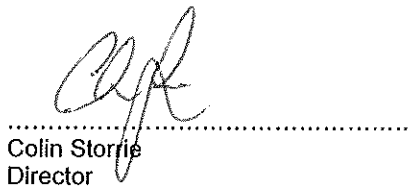
for the year ended 31 December 2011

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

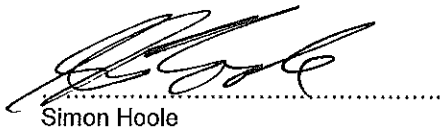
(a) in the opinion of the directors there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the opinion of the directors the financial statements and notes are in accordance with the Corporations Act 2001, including section 296 (compliance with accounting standards) and section 297 (true and fair view); and

(c) the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards as disclosed in Note 2(a).



Colin Storrie
Director



Simon Hoole
Director

Sydney, 27 February 2012

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

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

Report on the financial report

We have audited the accompanying financial report of AMP Group Finance Services Limited, which comprises the statement of financial position as at 31 December 2011, income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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.

Liability limited by a scheme approved
under Professional Standards Legislation

ERNST & YOUNG

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 2011 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 2.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
27 February 2012