Notes to the financial statements

for the year ended 31 December 2021

ABOUT THIS REPORT

This section outlines the structure of the AMP group, information useful to understanding the AMP group's financial report and the basis on which the financial report has been prepared.

(a) Understanding the AMP financial report

The AMP group (AMP) is comprised of AMP Limited (the parent), a holding company incorporated and domiciled in Australia, and the entities it controls (subsidiaries or controlled entities). The consolidated financial statements of AMP Limited include the financial information of its controlled entities.

The consolidated financial report:

- is a general purpose financial report;
- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board;
- is presented in Australian dollars with all values rounded to the nearest million dollars ($m), unless otherwise stated;
- has been prepared on a going concern basis generally using a historical cost basis; however where permitted under accounting standards a different basis may be used, including the fair value basis;
- presents assets and liabilities on the face of the Consolidated statement of financial position in decreasing order of liquidity and therefore does not distinguish between current and non-current items;
- presents reclassified comparative information where required for consistency with the current year's presentation within the annual report; and
- includes restated comparative information to reflect the impact of a change in accounting policy as detailed in note 2.3.

AMP Limited is a for-profit entity and is limited by shares.

The financial statements for the year ended 31 December 2021 were authorised for issue on 10 February 2022 in accordance with a resolution of the directors.

Assets and liabilities held for sale

SALE OF AMP CAPITAL'S GLOBAL EQUITIES AND FIXED INCOME BUSINESS

On 8 July 2021, AMP announced an agreement to sell AMP Capital's Global Equities and Fixed Income (GEFI) business to Macquarie Asset Management for up to $185m. The sale is subject to customary closing conditions and is expected to complete in the first quarter of 2022.

Consideration at completion will comprise an upfront cash payment of up to $110m and deferred consideration of up to $75m. The aggregate consideration is subject to meeting certain conditions, including revenue targets, with the upfront cash component expected to be approximately $80m. The deferred consideration will be fair valued by AMP at completion and, together with the cash proceeds, will be treated as the accounting purchase price.

GEFI was controlled by AMP throughout the reporting period and as a result, the income and expenses, assets and liabilities and cash flows of this business are consolidated within the financial report. In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5), the assets and liabilities of this business have been separately classified as held for sale in the Consolidated statement of financial position.

DIVESTMENT OF EQUITY INTEREST IN RESOLUTION LIFE AUSTRALASIA

On 3 November 2021, AMP announced an agreement to divest its 19.13% equity interest in Resolution Life NOHC Pty Ltd (RLA) for consideration of $524m to Resolution Life Group, less the amount of any dividends, distributions or capital returns that are paid from RLA to AMP. The sale is subject to Regulatory approval and is expected to complete in the first half of 2022.

Subsequent to the agreement to divest, AMP received dividends and capital returns from RLA of $15m, reducing the consideration payable at completion to $509m. In accordance with AASB 5, the carrying value of AMP's equity interest in RLA has been adjusted to $509m as at 31 December 2021 and has been separately classified as held for sale in the Consolidated statement of financial position.

As part of the divestment agreement, AMP and RLA have also agreed to settle a number of post-completion adjustments and certain claims between the parties, subject to various limitations and exclusions, which results in a payment of $141m from AMP to RLA at completion. This balance has been separately classified as held for sale in the Consolidated statement of financial position.

DIVESTMENT OF INFRASTRUCTURE DEBT PLATFORM

On 24 December 2021, AMP announced an agreement to sell its Infrastructure Debt platform to Ares Holdings LP for consideration of up to $428m. The sale is subject to a number of conditions precedent and is expected to complete in the first quarter of 2022. AMP's Infrastructure Debt platform was controlled by AMP throughout the reporting period and as a result, the income and expenses, assets and liabilities and cash flows of the platform are consolidated within the financial report. As at 31 December 2021, the assets and liabilities of this business have been separately classified as held for sale in the Consolidated statement of financial position.

COVID-19 impacts

The COVID-19 pandemic has resulted in significant disruptions to the global economy during the year ended 31 December 2021 and there remains substantial uncertainty over the ultimate duration and extent of the pandemic as well as the corresponding economic impacts. These uncertainties have been incorporated into the judgements and estimates used by management in the preparation of this report, including the carrying values of the assets and liabilities.

(b) Basis of consolidation

Entities are fully consolidated from the date of acquisition, being the date on which the AMP group obtains control, and continue to be consolidated until the date that control ceases. Control exists where the AMP group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income, expenses, assets, liabilities and cash flows of controlled entities are consolidated into the AMP group financial statements, along with those attributable to the shareholders of the parent entity. All inter-company transactions are eliminated in full, including unrealised profits arising from intra-group transactions.

The share of the net assets of controlled entities attributable to non-controlling interests is disclosed as a separate line item on the Consolidated statement of financial position.

Materiality

Information has only been included in the financial report to the extent that it has been considered material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the AMP group;
- it helps explain the impact of significant changes in the AMP group; and/or
- it relates to an aspect of the AMP group's operations that is important to its future performance.

(c) Significant accounting policies

The significant accounting policies adopted in the preparation of the financial report are contained in the notes to the financial statements to which they relate. All accounting policies have been consistently applied to the current year and comparative period, unless otherwise stated. Where an accounting policy relates to more than one note or where no note is provided, the accounting policies are set out below.

Interest, dividends and distributions income

Interest income measured at amortised cost is recognised in the Consolidated income statement using the effective interest method. Revenue from dividends and distributions is recognised when the AMP group's right to receive payment is established.

Foreign currency transactions

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars (the functional currency) using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities carried at fair value	Date fair value is determined

Foreign exchange gains and losses resulting from translation of foreign exchange transactions are recognised in the Consolidated income statement, except for qualifying cash flow hedges, which are deferred to equity.

On consolidation the assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date
Reserves	Reporting date

Foreign exchange differences resulting from translation of foreign operations are initially recognised in the foreign currency translation reserve and subsequently transferred to the Consolidated income statement on disposal of the foreign operation.

Notes to the financial statements

for the year ended 31 December 2021

(d) Critical judgements and estimates

Preparation of the financial statements requires management to make judgements, estimates and assumptions about future events. Information on critical judgements and estimates considered when applying the accounting policies can be found above and in the following notes:

1

SECTION

RESULTS FOR THE YEAR

This section provides insights into how the AMP group has performed in the current year and provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the AMP group.

Statutory measures of performance disclosed in this report are:

- Statutory earnings per share (EPS) – basic and diluted
- Profit (loss) after tax attributable to the shareholders of AMP

NPAT (underlying) is AMP's key measure of business performance. This performance measure is disclosed for each AMP operating segment within Segment performance.

1.1 SEGMENT PERFORMANCE

The AMP group identifies its operating segments based on separate financial information that is regularly reviewed by the Chief Executive Officer and his executive team in assessing performance and determining the allocation of resources. The operating segments are identified according to the nature of profit generated and services provided, and their performance is evaluated based on a post-tax operating earnings basis.

Reportable segment	Segment description
Australian wealth management (AWM)	AWM comprises of three different business components providing advice, retirement income and managed investments products through: – Platforms provides a Wrap Platform which includes superannuation, retirement and investment solutions. – Master Trust provides a whole of wealth solutions for members both retail and corporate. – Advice provides financial advice services and equity investments in practices.
AMP Bank	AMP Bank offers residential mortgages, deposits and transaction banking. The Bank continues to focus on growth through investing in technology to streamline the origination process, improving the experience for both customers and intermediaries.
AMP Capital	AMP Capital is a diversified investment manager across major asset classes including infrastructure, real estate, equities, fixed interest, diversified and multi-manager and multi-asset funds. On 23 April 2021, AMP announced the intention to demerge AMP Capital's Private Markets business, consisting of infrastructure equity, infrastructure debt and real estate. Subsequently, on 24 December 2021, AMP announced the further simplification of Private Markets with the sale of infrastructure debt, expected to complete in the first quarter of 2022. As part of the demerger preparations, on 8 July 2021, AMP announced the sale of its global equities and fixed income business (GEFI), which is expected to complete by 30 June 2022. The remaining AMP Capital public market business, the Multi-Asset Group, which is responsible for asset allocation on behalf of AMP's superannuation clients, will complete its transition over to Australian wealth management prior to demerger, creating an end-to-end superannuation and investment platform business.
New Zealand wealth management (NZ WM)	Encompasses the wealth management and financial advice and distribution business in New Zealand. It provides clients with a variety of wealth management solutions including KiwiSaver, corporate superannuation, retail investments and a wrap investment management platform.

Segment information is not reported for activities of the AMP group office companies as it is not the function of these departments to earn revenue and any revenues earned are incidental to the activities of the AMP group.

Notes to the financial statements

for the year ended 31 December 2021

1.1 SEGMENT PERFORMANCE *CONTINUED*

(a) Segment profit

2021	AMP Bank $m	WM $m	NZ WM $m	AMP Capital[1] $m	Total $m
Segment profit after income tax	**153**	**48**	**39**	**154**	**394**
External customer revenue	**413**	**948**	**150**	**511**	**2,022**
Intersegment revenue[2]	**–**	**3**	**–**	**216**	**219**
Segment revenue	**413**	**951**	**150**	**727**	**2,241**
Other segment information					
Income tax expense	**66**	**20**	**16**	**49**	**151**
Depreciation and amortisation	**16**	**28**	**4**	**25**	**73**

2020	AMP Bank $m	WM $m	NZ WM $m	AMP Capital[1] $m	Total $m
Segment profit after income tax[3]	111	64	35	131	341
External customer revenue	401	1,055	151	510	2,117
Intersegment revenue[2]	–	7	–	207	214
Segment revenue	401	1,062	151	717	2,331
Other segment information					
Income tax expense	48	25	14	35	122
Depreciation and amortisation	7	38	5	33	83

1 AMP Capital segment revenue is reported net of external investment manager fees.
2 Intersegment revenue represents operating revenue between segments priced on a market related basis and is eliminated on consolidation.
3 FY 20 segment profit after income tax has been restated to reflect additional Group Office allocations to business units from FY 21 and show investment income on an actual basis with the removal of the market adjustment methodology.

1.1 SEGMENT PERFORMANCE *CONTINUED*

(b) The following table allocates the disaggregated segment revenue from contracts with customers to the group's operating segments (see note 1.1(a)):

2021	AMP Bank $m	WM $m	NZ WM $m	AMP Capital $m	Total $m
Investment related	–	858	116	545	1,519
Management fees	–	–	–	90	90
Performance and transaction fees	–	–	–	74	74
Net interest income	399	–	–	–	399
Other revenue	14	93	34	18	159
Total segment revenue per segment note	**413**	**951**	**150**	**727**	**2,241**
Presentation adjustments [1]					187
Total statutory revenue from contracts with customers					**2,428**

2020	AMP Bank $m	WM $m	NZ WM $m	AMP Capital $m	Total $m
Investment related	–	907	115	564	1,586
Management fees	–	–	–	96	96
Performance and transaction fees	–	–	–	51	51
Net interest income	391	–	–	–	391
Other revenue	10	155	36	6	207
Total segment revenue per segment note	401	1,062	151	717	2,331
Presentation adjustments [1]					254
Total statutory revenue from contracts with customers					2,585

Statutory revenue from contracts with customers	2021 $m	2020 $m
Fee revenue		
– Investment management and related fees	1,597	1,696
– Financial advisory fees [2]	611	711
	2,208	2,407
Other revenue	220	178
Total statutory revenue from contracts with customers	**2,428**	2,585

1 Presentation adjustments primarily reflect the difference between total segment revenue and statutory revenue from contracts with customers, as required by AASB 15 *Revenue from Contracts with Customers*. These adjustments include revenue from sources other than contracts with customers and expense items which are presented net in the segment results, but presented gross in the Consolidated income statement.

2 A substantial majority of the financial advisory fees received are paid to advisers. For statutory reporting, financial advisory fees are presented gross of the related cost which is presented in Fee and commission expenses in the Consolidated income statement.

Notes to the financial statements

for the year ended 31 December 2021

1.1 SEGMENT PERFORMANCE *CONTINUED*

(c) Reconciliations

Segment profit after income tax differs from profit (loss) attributable to shareholders of AMP Limited due to the exclusion of the following items:

	2021 $m	2020 $m
Segment profit after income tax [1]	**394**	341
Net group office	**(38)**	(108)
Total operating earnings	**356**	233
NPAT (underlying) [2]	**356**	233
Gain on sale of AMP Life	**–**	299
AMP Life separation costs	**–**	(208)
Client remediation and related costs	**(78)**	(73)
Risk management, governance and controls	**–**	(29)
Transformation cost out	**(133)**	(51)
Impairments	**(312)**	(32)
Demerger costs	**(75)**	–
Other items [3]	**11**	(33)
Amortisation of acquired intangible assets	**(21)**	(58)
NPAT	**(252)**	48
AMP Life earnings [4]	**–**	129
(Loss)/Profit attributable to shareholders of AMP Limited	**(252)**	177
(Loss)/Profit attributable to non-controlling interests	**(2)**	17
(Loss)/Profit for the year	**(254)**	194

1 FY 20 segment profit after income tax has been re-presented to reflect actual investment income following the removal of 'market adjustment' which normalised investment income to 2.5%, this has previously been disclosed outside of Segment profit after income tax.
2 NPAT (underlying), represents shareholder attributable net profit or loss after tax excluding accounting mismatches and non- recurring revenue and expenses.
3 Other items largely comprise the net of one-off and non-recurring revenues and costs, including the cost of implementing significant regulatory changes.
4 Includes AMP Life earnings through to 30 June 2020.

1.1 SEGMENT PERFORMANCE *CONTINUED*

(c) Reconciliations *continued*

Total segment revenue differs from Total revenue as follows:

	2021 $m	2020 $m
Total segment revenue	**2,241**	2,331
Add revenue excluded from segment revenue		
– Investment gains and losses (excluding AMP Bank interest revenue)	**45**	32
– Other revenue	**220**	186
Add back expenses netted against segment revenue		
– Interest expense related to AMP Bank	**276**	377
– External investment manager and adviser fees paid in respect of certain assets under management	**668**	715
Movement in guarantee liabilities	**66**	(30)
Remove intersegment revenue	**(219)**	(214)
Total revenue	**3,297**	3,397

(d) Segment assets

Segment asset information has not been disclosed because the balances are not used by the Chief Executive Officer or the executive team for evaluating segment performance, or in allocating resources to segments.

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Revenue from contracts with customers

For AMP, revenue from contracts with customers arises primarily from the provision of investment management and financial advisory services. Revenue is recognised when control of services is transferred to the customer at an amount that reflects the consideration which AMP is entitled to in exchange for the services provided. As the customer simultaneously receives and consumes the benefits as the service is provided, control is transferred over time. Accordingly, revenue is recognised over time.

Fee rebates provided to customers are recognised as a reduction in fee revenue.

Investment management and related fees

Fees are charged to customers in connection with the provision of investment management and other related services. These performance obligations are satisfied on an ongoing basis, usually daily, and revenue is recognised as the service is provided.

Financial advisory fees

Financial advisory fees consist of fee-for-service revenue and commission income which are earned for providing customers with financial advice and performing related advisory services. These performance obligations are satisfied over time. Accordingly, revenue is recognised over time.

A substantial majority of the financial advisory fees received are paid to advisers. Financial advisory fees are presented gross of the related cost which is presented in Fees and commission expenses in the Consolidated income statement.

Notes to the financial statements

for the year ended 31 December 2021

1.2 OTHER OPERATING EXPENSES

	2021 $m	2020 $m
Impairment of intangibles	**(25)**	(5)
Movement in expected credit losses	**(25)**	(7)
Information technology and communication	**(227)**	(243)
Onerous lease contracts	**(118)**	–
Professional and consulting fees	**(247)**	(288)
Amortisation of intangibles	**(202)**	(122)
Depreciation of property, plant and equipment	**(62)**	(74)
Other expenses	**(386)**	(121)
Total other operating expenses	**(1,292)**	(860)

1.3 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated based on profit attributable to shareholders of AMP and the weighted average number of ordinary shares outstanding.

Diluted earnings per share

Diluted earnings per share is based on profit attributable to shareholders of AMP and the weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares, such as options and performance rights.

	2021 $m	2020 $m
(Loss)/Profit attributable to shareholders of AMP		
Continuing operations	**(252)**	53
Discontinued operations	**–**	124
(Loss)/Profit attributable to shareholders of AMP	**(252)**	177

	2021 $m	2020 $m
Weighted average number of ordinary shares for basic EPS [1]	**3,335**	3,428
Add: potential ordinary shares considered dilutive [2]	**–**	56
Weighted average number of ordinary shares used in the calculation of dilutive (loss)/earnings per share	**3,335**	3,484

	2021 cents	2020 cents
(Loss)/Earnings per share		
Basic	**(7.6)**	5.2
Diluted	**(7.6)**	5.1
(Loss)/Earnings per share for continuing operations		
Basic	**(7.6)**	1.6
Diluted	**(7.6)**	1.5

1 The weighted average number of ordinary shares outstanding is calculated after deducting the weighted average number of treasury shares held during the period.
2 Weighted average number of shares used in the basic and diluted Earnings Per Share calculation is the same for the year ended 31 December 2021 as the effect of share rights expected to vest are anti-dilutive and excluded from the calculation (2020: Performance rights have been determined to be dilutive, however, if these instruments vest and are exercised, it is AMP's policy to buy AMP shares on market so there will be no dilutive effect on the value of AMP shares).

Earnings per share for discontinuing operations

Basic	**n/a**	3.6
Diluted	**n/a**	3.6

Notes to the financial statements

for the year ended 31 December 2021

1.4 TAXES

OUR TAXES

This sub-section outlines the impact of income taxes on the results and financial position of AMP. In particular:

- the impact of tax on the reported result;
- amounts owed to/receivable from the tax authorities; and
- deferred tax balances that arise due to differences in the tax and accounting treatment of balances recorded in the financial report.

These financial statements include the disclosures relating to tax required under accounting standards. Further information on AMP's tax matters can be found in the AMP Tax Report at amp.com.au/shares.

(a) Income tax credit

The following table provides a reconciliation of differences between prima facie tax calculated as 30% of the profit or loss before income tax for the year and the income tax expense or credit recognised in the Consolidated income statement for the year.

	2021 $m	2020 $m
(Loss)/Profit before income tax	**(326)**	51
Tax at the Australian tax rate of 30% (2020: 30%)	**98**	(15)
Tax concessions including research and development and offshore banking unit	**1**	1
Non-deductible expenses	**(160)**	(25)
Non-taxable income	**61**	14
Other items	**(30)**	25
Over provided in previous years	**95**	3
Differences in overseas tax rates	**7**	16
Income tax credit per Consolidated income statement	**72**	19

(b) Analysis of income tax credit

	2021 $m	2020 $m
Current tax credit/(expense)	**109**	(7)
(Decrease)/Increase in deferred tax assets	**(130)**	57
Decrease/(Increase) in deferred tax liabilities	**93**	(31)
Income tax credit	**72**	19

1.4 TAXES *CONTINUED*

(c) Analysis of deferred tax balances

	2021 $m	2020 $m
Analysis of deferred tax assets		
Expenses deductible in the future years	**277**	499
Unrealised movements on borrowings and derivatives	**32**	54
Unrealised investment losses	**11**	43
Losses available for offset against future taxable income	**177**	43
Lease Liability	**29**	50
Capitalised software expenses	**131**	129
Transferred to assets held for sale	**(6)**	–
Other	**4**	10
Total deferred tax assets	**655**	828
Analysis of deferred tax liabilities		
Unrealised investment gains	**30**	43
Right of use assets	**20**	41
Intangible asset	**35**	115
Unearned revenue	**28**	–
Other	**23**	27
Total deferred tax liabilities	**136**	226

(d) Amounts recognised directly in equity

	2021 $m	2020 $m
Deferred income tax expense related to items taken directly to equity during the year	**(43)**	(7)

(e) Unused tax losses and deductible temporary differences not recognised

	2021 $m	2020 $m
Revenue losses	**155**	112
Deductible temporary differences	**57**	–
Capital losses	**1,053**	741

Notes to the financial statements

for the year ended 31 December 2021

1.4 TAXES *CONTINUED*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Income tax expense

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

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

Adjustments to income tax 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 that are recognised directly in equity is also recognised directly in equity.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences and are measured at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on tax rates that have been enacted or substantively enacted for each jurisdiction at the reporting date. Deferred tax assets and liabilities are not discounted to present value.

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.

Tax consolidation

AMP Limited and its wholly owned Australian controlled entities are part of a tax-consolidated group, with AMP Limited being the head entity (the company). A tax funding agreement has been entered into by the head entity and the controlled entities in the tax-consolidated group and requires entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current or deferred tax assets in respect of tax losses arising from external transactions occurring after 30 June 2003, the implementation date of the tax-consolidated group.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The AMP group is subject to taxes in Australia and other jurisdictions where it has operations. The application of tax law to the specific circumstances and transactions of the AMP group 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 and deductible temporary differences are probable for the purpose of meeting the criteria for recognition as deferred tax assets.

1.5 DIVIDENDS

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

	2021 Final	2021 Interim	2020 Final	2020 Special dividend
Dividend per share (cents)	–	–	–	10.0
Franking percentage	–	–	–	100%
Dividend amount ($m)	–	–	–	343
Payment date	–	–	–	1 October 2020

	2021 $m	2020 $m
Dividends paid		
Previous year final dividend on ordinary shares	–	–
Special dividend on ordinary shares	–	343
Total dividends paid[1]	–	343

1 Total dividends paid includes dividends paid on Treasury shares $nil (2020: $nil).

Dividend franking credits

Franking credits available to shareholders are $67m (2020: $76m), based on a tax rate of 30%. This amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the settlement, after the end of the reporting date, of liabilities for income tax and receivables for dividends.

The company's ability to utilise the franking account credits depends on meeting *Corporations Act 2001* (Cth) requirements to declare dividends.

Franked dividends are franked at a tax rate of 30%.

Notes to the financial statements

for the year ended 31 December 2021

2 SECTION

LOANS AND ADVANCES, INVESTMENTS, INTANGIBLES AND WORKING CAPITAL

This section highlights the AMP group's assets and working capital used to support the AMP group's activities.

2.1 LOANS AND ADVANCES

(a) Loans and advances

	2021 $m	2020 $m
Housing loans [1]	**21,847**	20,289
Practice finance loans	**316**	391
Total loans and advances [2]	**22,163**	20,680
Less: Provisions for impairment		
Individual provisions		
– Housing loans	**(7)**	(13)
– Practice finance loans	**(83)**	(94)
Collective provisions	**(26)**	(47)
Total provisions for impairment	**(116)**	(154)
Total net loans and advances	**22,047**	20,526
Movement in provisions:		
Individual provision		
Balance at the beginning of the year	**107**	112
Increase in provision – housing loans	**1**	4
Increase in provision – practice finance loans	**–**	1
Bad debts written off	**(3)**	(3)
Provision released	**(15)**	(7)
Balance at the end of the year	**90**	107
Collective provision		
Balance at the beginning of the year	**47**	20
(Decrease)/increase in provision	**(21)**	27
Balance at the end of the year	**26**	47

1 Total housing loans include net capitalised costs of $87m (2020: $76m).
2 Total loans and advances $16,600m (2020: $16,317m) is expected to be received more than 12 months after the reporting date.

2.1 LOANS AND ADVANCES *CONTINUED*

(b) Expected credit losses

The following table provides the changes to expected credit losses (ECLs) relating to loans and advances during the year. The movements in provisions during the period are inclusive of adjustments to macro-economic factors (including unemployment, property prices, ASX index and cash rate) that reflect the impacts in the economy as a result of the COVID-19 pandemic.

2021	Stage 1 collective $m	Stage 2 collective $m	Stage 3 $m	Total $m
Balance at the beginning of the year	**31**	**16**	**107**	**154**
Transferred to Stage 1 (12-months ECL – collective provision)	**15**	**(8)**	**(7)**	**–**
Transferred to Stage 2 (lifetime ECL credit impaired – collective provision)	**–**	**2**	**(2)**	**–**
Transferred to Stage 3 (lifetime ECL credit impaired – specific provision)	**(1)**	**(1)**	**2**	**–**
(Released)/increased provisions during the period (net of collective provision released)	**(27)**	**(1)**	**1**	**(27)**
Bad debt write-offs	**–**	**–**	**(3)**	**(3)**
Provision for practice finance loans	**–**	**–**	**(8)**	**(8)**
Balance at the end of the year	**18**	**8**	**90**	**116**

2020	Stage 1 collective $m	Stage 2 collective $m	Stage 3 $m	Total $m
Balance at the beginning of the year	11	9	112	132
Transferred to Stage 1 (12-months ECL – collective provision)	7	(2)	(5)	–
Transferred to Stage 2 (lifetime ECL credit impaired – collective provision)	–	1	(1)	–
Transferred to Stage 3 (lifetime ECL credit impaired – specific provision)	(1)	(1)	2	–
Increased provisions during the year (net of collective provision released)	14	9	6	29
Bad debt write-offs	–	–	(3)	(3)
Provision for practice finance loans	–	–	(4)	(4)
Balance at the end of the year	31	16	107	154

Notes to the financial statements

for the year ended 31 December 2021

2.1 LOANS AND ADVANCES *CONTINUED*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Financial assets measured at amortised cost – loans and advances and debt securities

Loans and advances and debt securities are measured at amortised cost when both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are 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. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when AMP Bank provides money directly to a customer, including loans and advances to advisers, and with no intention of trading the financial asset. Loans and advances are initially recognised at fair value including direct and incremental transaction costs relating to loan origination. They are subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

In 2020, as a resultant impact of COVID-19 AMP Bank introduced loan repayment deferral arrangements to mortgage customers. The repayment deferrals are considered a continuation of customers' existing loans and recognised as non-substantial loan modifications as they continue to accrue interest on deferred repayments. A request for repayment deferrals is not automatically treated as, but may result in, a significant increase in credit risk, subject to management assessment.

IMPAIRMENT OF FINANCIAL ASSETS

An allowance for expected credit losses (ECLs) is recognised for financial assets not held at fair value through profit or loss. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. The key elements in the measurement of ECLs are as follows:

- PD – the probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – loss given default is an estimate of the loss arising in the case where default occurs at a given time. It is based on the difference between cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive, including from the realisation of any collateral.

The group estimates these elements using appropriate credit risk models taking into consideration a number of factors including the internal and external credit ratings of the assets, nature and value of collateral and forward-looking macro-economic scenarios.

Other than ECL on trade receivables, where a simplified approach is taken, the group applies a three-stage approach to measure the ECLs as follows:

STAGE 1 (12-MONTH ECL)

The group collectively assesses and recognises a provision at an amount equal to 12-month ECL when financial assets are current and/or have had a good performance history and are of low credit risk. It includes financial assets where the credit risk has improved, and the financial assets have been reclassified from Stage 2 or even Stage 3 based on improved performance observed over a predefined period of time. A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

STAGE 2 (LIFETIME ECL – NOT CREDIT IMPAIRED)

The group collectively assesses and recognises a provision at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but the financial assets are not credit impaired.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. Financial assets that were 30 days past due at least once over the last six months are deemed to have significant increase in credit risk since initial recognition. For loans and advances, other risk factors like hardship, loan to value ratio (LVR) and loan to income ratio (LTI) are also considered in order to determine a significant increase in credit risk.

STAGE 3 (LIFETIME ECL – CREDIT IMPAIRED)

The group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment. Financial assets are classified as impaired when payment is 90 days past due or when there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis.

2.1 LOANS AND ADVANCES *CONTINUED*

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Impairment

The impairment provisions (individual and collective) are outputs of ECL models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting estimates and judgements include:

- the AMP group's internal grading which assigns PDs to the individual grades;
- the AMP group's estimates of LGDs arising in the event of default;
- the AMP group's criteria for assessing if there has been a significant increase in credit risk;
- development of ECL models, including the various formulas, choice of inputs and assumptions; and
- determination of associations between macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Future outcomes and macro-economic conditions which differ from management's assumptions and estimates could result in changes to the timing and amount of credit losses to be recognised.

Notes to the financial statements

for the year ended 31 December 2021

2.2 INVESTMENTS IN OTHER FINANCIAL ASSETS AND LIABILITIES

	2021 $m	2020 $m
Financial assets measured at fair value through profit or loss		
Equity securities and listed managed investment schemes	**13**	28
Debt securities	**751**	1,132
Unlisted managed investment schemes [1]	**314**	149
Derivative financial assets	**334**	369
Total financial assets measured at fair value through profit or loss	**1,412**	1,678
Financial assets measured at fair value through other comprehensive income		
Debt securities [2]	**2,184**	2,768
Equity securities [1]	**–**	59
Total financial assets measured at fair value through other comprehensive income	**2,184**	2,827
Other financial assets measured at amortised cost		
Debt securities	**88**	582
Total other financial assets measured at amortised cost	**88**	582
Total other financial assets	**3,684**	5,087
Other financial liabilities		
Derivative financial liabilities	**185**	376
Collateral deposits held	**108**	127
Total other financial liabilities	**293**	503

1 $70m of Unlisted managed investment schemes (FY 20 $59m of equity securities) are held by AMP Foundation for charitable purposes in accordance with the AMP Foundation Trust Deed.
2 Debt securities measured at fair value through other comprehensive income are assets of AMP Bank.

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Recognition and derecognition of financial assets and liabilities

Financial assets and financial liabilities are recognised at the date the AMP group becomes a party to the contractual provisions of the instrument. At initial recognition, financial assets are classified as subsequently measured at fair value through profit or loss, fair value through other comprehensive income (OCI), and amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them.

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.

Financial assets measured at fair value through profit or loss

Financial assets measured 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 profit or loss in the period in which they arise.

2.2 INVESTMENTS IN OTHER FINANCIAL ASSETS AND LIABILITIES *CONTINUED*

Financial assets measured at fair value through profit or loss – debt securities

Debt securities can be irrevocably designated, at initial recognition, as measured at fair value through profit or loss where doing so would eliminate or significantly reduce a measurement or recognition inconsistency or otherwise results in more relevant information. Fair value on initial recognition is determined as the purchase cost of the asset, exclusive of any transaction costs. Transactions costs are expensed as incurred in profit or loss. Subsequent measurement is determined with reference to the bid price at the reporting date. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the Consolidated income statement in the period in which they arise.

Financial assets measured at fair value through OCI – debt securities

Debt securities are measured at fair value through OCI when both of the following conditions are met:

- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through OCI instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and impairment losses or reversals are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. The accumulated gains or losses recognised in OCI are recycled to profit and loss upon derecognition of the assets.

The group classifies debt securities held by AMP Bank under this category.

Financial assets measured at fair value through OCI – equity securities

Upon initial recognition, the group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets measured at amortised cost – debt securities

Refer to note 2.1 for details.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Financial assets measured at fair value

Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair value of financial instruments is set out in note 2.7.

Notes to the financial statements

for the year ended 31 December 2021

2.3 INTANGIBLES

	Goodwill $m	Capitalised costs $m	Value of in-force business $m	Distribution networks $m	Other intangibles $m	Total $m
2021						
Balance at the beginning of the year	**157**	**228**	**114**	**119**	**11**	**629**
Additions through separate acquisitions	**–**	**–**	**–**	**49**	**–**	**49**
Additions through internal development	**–**	**51**	**–**	**–**	**–**	**51**
Reductions through disposal	**–**	**(40)**	**(24)**	**(96)**	**–**	**(160)**
Transferred from inventories	**–**	**–**	**–**	**2**	**–**	**2**
Amortisation expense	**–**	**(93)**	**(90)**	**(18)**	**(1)**	**(202)**
Impairment loss	**–**	**(19)**	**–**	**(6)**	**–**	**(25)**
Transferred to assets held for sale	**(8)**	**–**	**–**	**–**	**(6)**	**(14)**
Balance at the end of the year	**149**	**127**	**–**	**50**	**4**	**330**

	Goodwill $m	Capitalised costs $m	Value of in-force business $m	Distribution networks $m	Other intangibles $m	Total $m
2020						
Balance as at 1 January 2020	172	223	341	127	14	877
Impact of changes in accounting policies [1]	–	(11)	–	–	–	(11)
Restated balance at the beginning of the year	172	212	341	127	14	866
Additions through acquisitions of controlled entities	–	–	–	8	–	8
Additions through separate acquisitions	–	–	–	83	–	83
Additions through internal development	–	93	–	–	–	93
Reductions through disposal	(15)	(12)	(177)	(66)	–	(270)
Transferred to inventories	–	–	–	(3)	–	(3)
Amortisation expense [2]	–	(64)	(50)	(26)	(3)	(143)
Impairment loss	–	(1)	–	(4)	–	(5)
Balance at the end of the year	157	228	114	119	11	629

1 Relates to the change of the accounting policy of Software as a Service (SaaS) arrangements.

2 Amortisation expense includes amortization related to the WP and mature businesses of $nil (2020: $17m).

2.3 INTANGIBLES *CONTINUED*

CHANGE IN ACCOUNTING POLICIES

Software as a Service (SaaS) arrangements

Up until the IFRIC decision published in April 2021, generally accepted accounting practice was to capitalise costs associated with establishing a SaaS platform, such as configuration and customisation costs, on the basis that the benefits associated with such costs would be realised over multiple future financial periods. Pursuant to the IFRIC decision, the group's accounting policy for SaaS Cloud Platform costs is to expense costs related to configuration and customisation of SaaS Cloud platforms in the period in which such services are received unless identifiable and distinct intangible assets controlled by the group are created.

The change in policy has been applied retrospectively through opening retained earnings and comparatives have been restated.

The impact on the group's financial statements to reflect the write-off of previously capitalised costs is shown in the table below. A positive number indicates an increase in the relevant balance and a negative amount signifies a reduction.

$m	Previously reported	Impact of change	Revised amount
Statement of financial position			
1 January 2020			
Retained earnings	(3,509)	(8)	(3,517)
31 December 2020			
Intangible assets	640	(11)	629
Total assets	32,164	(11)	32,153
Deferred tax liabilities	229	(3)	226
Total liabilities	27,882	(3)	27,879
Net assets	4,282	(8)	4,274
Retained earnings	(3,671)	(8)	(3,679)
Statement of comprehensive income			
For the year ended 31 December 2020			
Information technology and communication expenses	239	4	243
Amortisation of intangibles	126	(4)	122
Profit before tax, continuing operations	51	–	51
Income tax credit	19	–	19
Profit after tax, continuing operations	70	–	70

Notes to the financial statements

for the year ended 31 December 2021

2.3 INTANGIBLES *CONTINUED*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Goodwill

Goodwill acquired in a business combination is recognised at cost and subsequently measured at cost less any accumulated impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets acquired and liabilities assumed.

Capitalised costs

Costs are capitalised when the costs relate to the creation of an asset with expected future economic benefits which are capable of reliable measurement. Capitalised costs are amortised on a straight-line basis over the estimated useful life of the asset, commencing at the time the asset is first put into use or held ready for use, whichever is the earlier.

Value of in-force business

The value of in-force business represents the fair value of future business arising from existing contractual arrangements of a business acquired as part of a business combination. The value of in-force business is initially measured at fair value and is subsequently measured at fair value less amortisation and any accumulated impairment losses.

Distribution networks

Distribution networks such as customer lists, financial planner client servicing rights or other distribution-related rights, either acquired separately or through a business combination, are initially measured at fair value and subsequently measured at cost less amortisation and any accumulated impairment losses.

Amortisation

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful life of the intangible asset. The estimated useful lives are generally:

Item	Useful life
Capitalised costs	Up to 10 years
Distribution networks	2 to 15 years

The useful life of each intangible asset is reviewed at the end of the period and, where necessary, adjusted to reflect current assessments.

Impairment testing

Goodwill and intangible assets that have indefinite useful lives are tested at least annually for impairment. Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). An impairment loss is recognised when the CGU's carrying amount exceeds the CGU's recoverable amount. When applicable, an impairment loss is first allocated to goodwill and any remainder is then allocated to the other assets on a pro-rata basis.

2.3 INTANGIBLES *CONTINUED*

Composition of goodwill

The goodwill of $149m (2020: $157m) arose from historical acquisitions where the AMP group was the acquirer. Goodwill attributable to the relevant CGUs is presented in the table below.

	2021 $m	2020 $m
New Zealand wealth management (NZ WM)	**70**	70
AMP Capital	**79**	87
	149	157

The annual impairment assessment for both NZ WM and AMP Capital resulted in significant headroom in both the CGUs. There was no reasonably possible change to a key assumption used in the impairment assessment that would result in an impairment at 31 December 2021.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management applies judgement in selecting valuation techniques and setting valuation assumptions to determine the:

- acquisition date fair value and estimated useful life of acquired intangible assets;
- allocation of goodwill to CGUs and determining the recoverable amount of the CGUs; and
- assessment of whether there are any impairment indicators for acquired intangibles and internally generated intangibles, where required, in determining the recoverable amount.

Notes to the financial statements

for the year ended 31 December 2021

2.4 OTHER ASSETS

	2021 $m	2020 $m
Planner registers held for sale	**11**	28
Prepayments	**66**	59
Property, plant and equipment	**73**	90
Total other assets	**150**	177
Current	***71***	*73*
Non-current	***79***	*104*

2.5 RECEIVABLES

	2021 $m	2020 $m
Investment related receivables	**13**	3
Client register receivables	**41**	62
Collateral receivables	**47**	203
Trade debtors and other receivables	**471**	434
Total receivables[1]	**572**	702
Current	***571***	*651*
Non-current	***1***	*51*

1 Receivables are presented net of ECL of $34m (2020: $11m).

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Receivables

Trade debtors, client register, collateral and other receivables are measured at amortised cost, less an allowance for ECLs. Investment related receivables are financial assets measured at fair value through profit or loss.

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

2.6 PAYABLES

	2021 $m	2020 $m
Accrued expenses	**177**	158
Trade creditors and other payables	**172**	133
Total payables	**349**	291
Current	***349***	*288*
Non-current	**–**	*3*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Payables

Payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount payable approximates fair value.

Notes to the financial statements

for the year ended 31 December 2021

2.7 FAIR VALUE INFORMATION

The following table shows the carrying amount and estimated fair values of financial instruments including their levels in the fair value hierarchy.

2021	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	13	–	–	13	13
Debt securities	2,935	2,184	751	–	2,935
Unlisted managed investment schemes	314	27	236	51	314
Derivative financial assets	334	–	334	–	334
Total financial assets measured at fair value	3,596	2,211	1,321	64	3,596
Financial assets not measured at fair value					
Loans and advances	22,047	–	–	22,227	22,227
Debt securities	88	–	88	–	88
Total financial assets not measured at fair value	22,135	–	88	22,227	22,315
Financial liabilities measured at fair value					
Derivative financial liabilities	185	–	185	–	185
Collateral deposits held	108	–	108	–	108
Guarantee liabilities	85	–	–	85	85
Total financial liabilities measured at fair value	378	–	293	85	378
Financial liabilities not measured at fair value					
AMP Bank					
– Deposits	17,791	–	17,808	–	17,808
– Other	6,631	–	6,663	–	6,663
Corporate borrowings	1,695	–	1,716	–	1,716
Total financial liabilities not measured at fair value	26,117	–	26,187	–	26,187

2.7 FAIR VALUE INFORMATION *CONTINUED*

2020	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Financial assets measured at fair value					
Equity securities and listed managed investment schemes	87	80	–	7	87
Debt securities	3,900	2,413	1,487	–	3,900
Unlisted managed investment schemes	149	–	108	41	149
Derivative financial assets	369	–	369	–	369
Total financial assets measured at fair value	4,505	2,493	1,964	48	4,505
Financial assets not measured at fair value					
Loans and advances	20,526	–	–	20,649	20,649
Debt securities	582	–	582	–	582
Total financial assets not measured at fair value	21,108	–	582	20,649	21,231
Financial liabilities measured at fair value					
Derivative financial liabilities	376	–	376	–	376
Collateral deposits held	127	–	127	–	127
Guarantee liabilities	151	–	–	151	151
Total financial liabilities measured at fair value	654	–	503	151	654
Financial liabilities not measured at fair value					
AMP Bank					
– Deposits	16,129	–	16,129	–	16,129
– Other	6,443	–	6,503	–	6,503
Corporate borrowings	2,344	–	2,344	–	2,344
Total financial liabilities not measured at fair value	24,916	–	24,976	–	24,976

Notes to the financial statements

for the year ended 31 December 2021

2.7 FAIR VALUE INFORMATION *CONTINUED*

AMP's methodology and assumptions used to estimate the fair value of financial instruments are described below:

Equity securities and listed managed investment schemes	The fair value of listed equity securities traded in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities where there is no active market, fair value is established using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
Debt securities	The fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities is estimated using interest rate yields obtainable on comparable listed investments. For debt securities with a maturity of less than 12 months, par value is considered a reasonable approximation of fair value.
Loans	The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the loans. As the loans are unlisted, the discount rates applied are based on the yield curve appropriate to the remaining term of the loans. The loans may, from time to time, be measured at an amount in excess of fair value due to fluctuations on fixed rate loans. In these situations, as the fluctuations in fair value would not represent a permanent diminution and the carrying amounts of the loans are recorded at recoverable amounts after assessing impairment, it would not be appropriate to restate their carrying amount.
Unlisted managed investment schemes	The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.
Derivative financial assets and liabilities	The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices (current bid price or current offer price) at the reporting date. The fair value of financial instruments not traded in an active market (eg over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, discounted cash flow methods and comparison to quoted market prices or dealer quotes for similar instruments. The models use a number of inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying instruments. Some derivatives contracts are significantly cash collateralised, thereby minimising both counterparty risk and the group's own non-performance risk.
Corporate borrowings	Borrowings comprise commercial paper, drawn liquidity facilities, various floating-rate and medium-term notes and subordinated debt. 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. For short-term borrowings, the par value is considered a reasonable approximation of the fair value.
AMP Bank deposits and other borrowings	The estimated fair value of deposits and other borrowings represents the discounted amount of estimated future cash flows expected to be paid based on the residual maturity of these liabilities. The discount rate applied is based on a current yield curve appropriate for similar types of deposits and borrowings at the reporting date.
Guarantee liabilities	The fair value of the guarantee liabilities is determined as the net present value of future cash flows discounted using market rates. The future cash flows are determined using risk neutral stochastic projections based on assumptions such as mortality rate, lapse rate and asset class allocation/correlation. The future cash flows comprise expected guarantee claims and hedging expenses net of expected fee revenue.

2.7 FAIR VALUE INFORMATION *CONTINUED*

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

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

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have been no significant transfers between Level 1 and Level 2 during the 2021 financial year. Transfers to and from Level 3 are shown in the Reconciliation of Level 3 values table later in this note.

Level 3 fair values

For financial assets measured at fair value on a recurring basis and categorised within Level 3 of the fair value hierarchy, the valuation processes applied in valuing such assets was governed by valuation policies adopted by the AMP group including the AMP Capital valuation policy. These policies outline the asset valuation methodologies and processes applied to measure non-exchange traded assets which have no regular market price, including investment property, infrastructure, private equity, alternative assets, and illiquid debt securities. All significant Level 3 assets were referred to the appropriate valuation committee who met at least every six months, or more frequently if required.

The following table shows the valuation techniques used in measuring Level 3 fair values of financial assets measured at fair value on a recurring basis, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Equity securities and listed managed investment schemes	Discounted cash flow approach utilising cost of equity as the discount rate	Discount rate Terminal value growth rate Cash flow forecasts
Unlisted managed investment schemes	Published redemption prices	Judgement made in determining unit prices
Guarantee liabilities	Discounted cash flow approach	Discount rate Hedging costs

Sensitivity

The following table illustrates the impacts to profit before tax and equity resulting from reasonably possible changes in key assumptions.

	2021		2020	
	(+) $m	(-) $m	(+) $m	(-) $m
Financial assets[1]				
Equity securities and listed managed investment schemes	**1**	**(1)**	1	(1)
Unlisted managed investment schemes	**5**	**(5)**	4	(4)
Financial liabilities[2]				
Guarantee liabilities	**(2)**	**(3)**	1	*(3)*

1 Reasonably possible changes in price movements of 10% (2020: 10%) have been applied in determining the impact on profit after tax and equity.
2 Reasonably possible changes in equity market movements of 20% (2020: 20%) and bond yield movements of 50bps (2020: 50bps) have been applied in determining the impact on profit after tax and equity.

Notes to the financial statements

for the year ended 31 December 2021

2.7 FAIR VALUE INFORMATION *CONTINUED*

Reconciliation of Level 3 values

The following table shows movements in the fair values of financial instruments measured at fair value on a recurring basis and categorised as Level 3 in the fair value hierarchy:

2021	Balance at the beginning of the year $m	FX gains or losses $m	Total gains/ losses $m	Purchases/ deposits $m	Sales/ withdrawals $m	Net transfers in/(out) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets classified as Level 3								
Equity securities and listed managed investment schemes	**7**	**–**	**(1)**	**8**	**(1)**	**–**	**13**	**–**
Unlisted managed investment schemes	**41**	**1**	**3**	**7**	**–**	**–**	**51**	**3**
Liabilities classified as Level 3								
Guarantee liabilities	**151**	**–**	**(33)**	**–**	**(33)**	**–**	**85**	**(33)**

2020	Balance at the beginning of the year $m	FX gains or losses $m	Total gains/ losses $m	Purchases/ deposits $m	Sales/ withdrawals $m	Net transfers in/(out) $m	Balance at the end of the year $m	Total gains and losses on assets and liabilities held at reporting date $m
Assets classified as Level 3								
Equity securities and listed managed investment schemes	2,515	–	(11)	63	(2,567)	7	7	–
Debt securities	127	–	–	–	(127)	–	–	–
Unlisted managed investment schemes	2,671	–	2	158	(2,831)	41	41	4
Investment properties	161	–	3	–	(164)	–	–	–
Liabilities classified as Level 3								
Guarantee liabilities	121	–	35	4	(9)	–	151	35
Investment contract liabilities	70,066	(7)	(6,201)	2,008	(65,866)	–	–	–

3
SECTION

CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

This section provides information relating to:
- the AMP group's capital management and equity and debt structure; and
- exposure to financial risks – how the risks affect financial position and performance and how the risks are managed, including the use of derivative financial instruments

The capital structure of the AMP group consists of equity and debt. AMP determines the appropriate capital structure in order to finance the current and future activities of the AMP group and satisfy the requirements of the regulator. The directors review the group's capital structure and dividend policy regularly and do so in the context of the group's ability to satisfy minimum and target capital requirements.

3.1 CONTRIBUTED EQUITY

	2021 $m	2020 $m
Issued capital		
3,266,105,853 (2020: 3,436,599,241) ordinary shares fully paid	**10,159**	10,355
Treasury shares [1]		
2,126,387 (2020: 2,126,387) treasury shares	**(6)**	(6)
Total contributed equity		
3,263,979,466 (2020: 3,434,472,854) ordinary shares fully paid	**10,153**	10,349
Issued capital		
Balance at the beginning of the year	**10,355**	10,402
170,493,388 (2020: nil) shares purchased on-market	**(196)**	–
Deconsolidation of discontinued operations	**–**	(47)
Balance at the end of the year	**10,159**	10,355
Treasury shares		
Balance at the beginning of the year	**(6)**	(103)
Decrease due to deconsolidation of discontinued operations	**–**	97
Balance at the end of the year	**(6)**	(6)

1 Held by AMP Foundation.

Holders of ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Fully paid ordinary shares carry the right to one vote per share. Ordinary shares have no par value.

Notes to the financial statements

for the year ended 31 December 2021

3.1 CONTRIBUTED EQUITY *CONTINUED*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Issued capital

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

Treasury shares

The AMP group is not permitted to recognise Treasury shares in the Consolidated statement of financial position. These shares, plus any corresponding Consolidated income statement fair value movement on the shares and dividend income, are eliminated on consolidation.

AMP Foundation also holds AMP Limited shares. These shares, plus any corresponding Consolidated income statement fair value movement on the shares and any dividend income, are eliminated on consolidation.

3.2 INTEREST-BEARING LIABILITIES

(a) Interest-bearing liabilities

	2021			2020		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Interest-bearing liabilities						
AMP Bank						
– Deposits [1]	**17,656**	**135**	**17,791**	15,990	139	16,129
– Other	**3,200**	**3,431**	**6,631**	3,976	2,467	6,443
Corporate entity borrowings [2]						
– 6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	**60**	**–**	**60**	–	63	63
– AMP Notes 3 (first call 2023, maturity 2028) [3]	**–**	**250**	**250**	–	250	250
– AMP Subordinated Notes [3]	**250**	**–**	**250**	–	250	250
– AMP Capital Notes	**–**	**–**	**–**	266	–	266
– AMP Capital Notes 2 [4]	**–**	**272**	**272**	–	271	271
– USD Medium Term Notes	**–**	**–**	**–**	398	–	398
– CHF Medium Term Notes [5]	**238**	**625**	**863**	–	846	846
Total interest-bearing liabilities	**21,404**	**4,713**	**26,117**	20,630	4,286	24,916

1 Deposits comprise at call customer deposits and customer term deposits at variable interest rates with the AMP Bank.

2 The current/non-current classification of corporate entity borrowings is based on the maturity of the underlying debt instrument and related principal repayment obligations. The carrying value of corporate entity borrowings includes interest payable of $5m (2020: $10m) which is expected to be settled within the next 12 months.

3 AMP Note 3 and AMP Subordinated Notes are floating rate subordinated unsecured notes. These were issued 15 November 2018 and 1 September 2017 respectively, and mature 15 November 2028 and 1 December 2027 respectively. Subject to APRA approval, AMP has the right but not the obligation, to redeem all or some of the Notes 15 November 2023 and 1 December 2022 respectively, or, subject to certain conditions, at a later date. In certain circumstances, AMP may be required to convert some or all of the Notes into AMP ordinary shares.

4 AMP Capital Notes 2 (ASX:AMPPB) were issued 23 December 2019. Subject to APRA approval, AMP has the right, but not the obligation, to redeem all or some of the notes 16 December 2025, or, subject to certain conditions, at a later date. They are perpetual notes with no maturity date. In certain circumstances, AMP may be required to convert some or all of the Notes into AMP ordinary shares.

5 CHF 110m Senior Unsecured Fixed Rate Bond was issued 19 June 2018 and matures 19 December 2022. This Bond was subsequently increased by CHF 50m on 19 September 2018. CHF 140m Senior Unsecured Fixed Rate Bond was issued 18 April 2019 and matures 18 July 2023. This Bond was subsequently increased by CHF 100m on 3 December 2019. CHF 175m Senior Unsecured Fixed Rate Bond was issued 3 March 2020 and matures 3 June 2024.

3.2 INTEREST-BEARING LIABILITIES *CONTINUED*

(b) Financing arrangements

Loan facilities and note programs

Loan facilities and note programs comprise facilities arranged through bond and note issues, as well as financing facilities provided through bank loans under normal commercial terms and conditions.

	2021 $m	2020 $m
Available loan facilities [1]	**1,950**	1,450
Note program capacity	**15,677**	14,087
Used	**(1,824)**	(3,034)
Unused facilities and note programs at the end of the year	**15,803**	12,503

1 Available loan facilities include bilateral facilities of $450m which mature on 30 April 2022.

(c) Changes in liabilities arising from operating and financing activities

	2021 $m	2020 $m
1 January	**24,916**	22,852
Cash flows	**1,185**	327
Deconsolidation of WP and mature businesses	**–**	1,795
Other	**16**	(58)
31 December	**26,117**	24,916

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

It is AMP's policy to hedge currency and interest rate risk arising on issued bonds and subordinated debt. When fair value hedge accounting is applied, the carrying amounts of borrowings and subordinated debt are adjusted for changes in fair value related to the hedged risk for the period that the hedge relationship remains effective. Any changes in fair value for the period are recognised in the Consolidated income statement. In cash flow hedge relationships the borrowings are not revalued.

Finance costs include:

(i) borrowing costs:
  - interest on bank overdrafts, borrowings and subordinated debt;
  - amortisation of discounts or premiums related to borrowings;

(ii) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs; and

(iii) changes in the fair value of derivative hedges together with any change in the fair value of the hedged assets or liabilities that are designated and qualify as fair value hedges, foreign exchange gains and losses and other financing-related amounts. Changes in the fair value of derivatives in effective cash flow hedges are recognised in the cash flow hedge reserve. The accounting policy for derivatives is set out in note 3.4.

Finance costs are recognised as expenses when incurred.

Notes to the financial statements

for the year ended 31 December 2021

3.3 FINANCIAL RISK MANAGEMENT

The AMP Limited Board has overall responsibility for the risk management framework including the approval of AMP's strategic plan, risk management strategy and risk appetite. Specifically, financial risk arises from the holding of financial instruments and financial risk management (FRM) is an integral part of the AMP group's enterprise risk management framework.

This note discloses financial risk in accordance with the categories in AASB 7 *Financial Instruments: Disclosures*:

- market risk;
- liquidity and refinancing risk; and
- credit risk.

These risks are managed in accordance with the board-approved risk appetite statement and the individual policies for each risk category and business approved by the Chief Financial Officer (CFO) under delegation from the AMP Group Asset and Liability Committee (Group ALCO).

(a) Market risk

Market risk is the risk that the fair value of assets and liabilities, or future cash flows of a financial instrument, will fluctuate due to movements in the financial markets including interest rates, foreign exchange rates, equity prices, property prices, credit spreads, commodity prices, market volatilities and other financial market variables.

The following table provides information on significant market risk exposures for the AMP group, which could lead to an impact on the AMP group's profit after tax and equity, and the management of those exposures.

Market risk	Exposures	Management of exposures and use of derivatives
Interest rate risk The risk of an impact on the AMP group's profit after tax and equity arising from fluctuations in the fair value or future cash flows of financial instruments due to changes in market interest rates. Interest rate movements could result from changes in the absolute levels of interest rates, the shape of the yield curve, the margin between yield curves and the volatility of interest rates.	The AMP group's long-term borrowings and subordinated debt.	Interest rate risk is managed by entering into interest rate swaps, which have the effect of converting borrowings from floating rate to fixed rate.
	AMP Bank interest rate risk from mismatches in the repricing terms of assets and liabilities (term risk) and variable rate short-term repricing bases (basis risk).	AMP Bank uses natural offsets, interest rate swaps and basis swaps to hedge the mismatches within exposure limits. Group Treasury manages the exposure in AMP Bank by maintaining a net interest rate risk position within the limits delegated and approved by the AMP Bank Board.
Currency risk The risk of an impact on the AMP group's profit after tax and equity arising from fluctuations of the fair value of a financial asset, liability or commitment due to changes in foreign exchange rates.	Foreign currency denominated assets and liabilities. Foreign equity accounted associates and capital invested in overseas operations. Foreign exchange rate movements on specific cash flow transactions.	The AMP group uses swaps to hedge the interest rate risk and foreign currency risk on foreign currency denominated borrowings but does not hedge the capital invested in overseas operations. The AMP group hedges material foreign currency risk originated by receipts and payments once the value and timing of the expected cash flow is known. In addition, the AMP group will at times pre-hedge any future (but not expected) foreign currency receipts and payments, subject to market conditions.
Equity price risk The risk of an impact on the AMP group's profit after tax and equity arising from fluctuations in the fair value or future cash flows of a financial instrument due to changes in equity prices.	Exposure for shareholders includes listed and unlisted shares, guarantee liabilities and participation in equity unit trusts.	Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

3.3 FINANCIAL RISK MANAGEMENT *CONTINUED*

(a) Market risk *continued*

Sensitivity analysis

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

- shows the direct impact of a reasonably possible change in market rates and is not intended to illustrate a remote, worst case stress test scenario;
- assumes that all underlying exposures and related hedges are included and the change in variable occurs at the reporting date; and
- 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.

		2021		2020	
Sensitivity analysis	**Change in variables**	**Impact on profit after tax Increase (decrease) $m**	**Impact on equity[1] Increase (decrease) $m**	**Impact on profit after tax Increase (decrease) $m**	**Impact on equity[1] Increase (decrease) $m**
Interest rate risk					
Impact of a 100 basis point (bp) change in Australian and international interest rates.	- 100bp	**2.7**	**10.4**	(0.4)	2.9
	+100bp	**(4.0)**	**(10.9)**	(0.5)	(3.7)
Currency risk					
Impact of a 10% movement of exchange rates against the Australian dollar on currency sensitive monetary assets and liabilities.	10% depreciation of AUD	**0.1**	**99.1**	0.2	86.7
	10% appreciation of AUD	**(0.5)**	**(81.5)**	(0.5)	(71.3)
Equity price risk					
Impact of a 10% movement in Australian and international equities. Any potential impact on fees from the AMP group's investment-linked business in is not included.	10% increase in:				
	Australian equities	**0.1**	**0.1**	0.6	0.6
	International equities	**–**	**–**	0.2	0.2
	10% decrease in:				
	Australian equities	**(0.7)**	**(0.7)**	(0.4)	(0.4)
	International equities	**(0.9)**	**(0.9)**	(0.9)	(0.9)

1 Included in the impact on equity is both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting.

Notes to the financial statements

for the year ended 31 December 2021

3.3 FINANCIAL RISK MANAGEMENT *CONTINUED*

(b) Liquidity and refinancing risk

Risk	Exposures	Management of exposures
Liquidity risk The risk that the AMP group is not able to meet its obligations as they fall due because of an inability to liquidate assets or obtain adequate funding when required. **Refinancing risk** The risk that the AMP group is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.	The AMP group corporate debt portfolio, AMP Bank and AMP Capital through various investment funds, entities or mandates that AMP manages or controls within the AMP group.	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 Group ALCO.

Maturity analysis

Below is a summary of the maturity profiles of AMP's undiscounted financial liabilities and off-balance sheet items at the reporting date, based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

2021	Up to 1 year $m	1 to 5 years $m	Over 5 years $m	Not specified $m	Total $m
Non-derivative financial liabilities					
Payables	**349**	**–**	**–**	**–**	**349**
Borrowings[1]	**20,079**	**5,129**	**312**	**–**	**25,520**
Lease liabilities	**33**	**86**	**41**	**–**	**160**
Subordinated debt	**89**	**96**	**807**	**–**	**992**
Guarantee liabilities	**–**	**–**	**–**	**85**	**85**
Derivative financial instruments					
Interest rate and cross-currency swaps	**125**	**102**	**29**	**–**	**256**
Off-balance sheet items					
Credit-related commitments – AMP Bank[2]	**3,702**	**–**	**–**	**–**	**3,702**
Lease commitments	**37**	**214**	**483**	**–**	**734**
Investment commitments	**–**	**–**	**–**	**452**	**452**
Total undiscounted financial liabilities and off-balance sheet items	**24,414**	**5,627**	**1,672**	**537**	**32,250**

1 Borrowings include AMP Bank deposits.
2 Credit-related loan commitments are off-balance sheet as they relate to unexercised commitments to lend to customers of AMP Bank.

3.3 FINANCIAL RISK MANAGEMENT *CONTINUED*

(b) Liquidity and refinancing risk *continued*

2020	Up to 1 year $m	1 to 5 years $m	Over 5 years $m	Not specified $m	Total $m
Non-derivative financial liabilities					
Payables	288	3	–	–	291
Borrowings[1]	19,854	3,360	796	–	24,010
Lease liabilities	58	127	58	–	243
Subordinated debt	42	217	1,095	–	1,354
Guarantee liabilities	–	–	–	151	151
Derivative financial instruments					
Interest rate and cross-currency swaps	50	84	21	–	155
Off-balance sheet items					
Credit-related commitments – AMP Bank[2]	3,398	–	–	–	3,398
Lease commitments	–	208	527	–	735
Buy-back arrangement commitments	89	–	–	–	89
Investment commitments	–	–	–	217	217
Total undiscounted financial liabilities and off-balance sheet items	**23,779**	**3,999**	**2,497**	**368**	**30,643**

1 Borrowings include AMP Bank deposits.
2 Credit-related loan commitments are off-balance sheet as they relate to unexercised commitments to lend to customers of AMP Bank.

(c) Credit risk

Credit risk management is decentralised in business units within AMP, with the exception of credit risk directly and indirectly impacting shareholder capital, which is measured and managed on an aggregate basis by Group Treasury at the AMP group level and reported to Group ALCO.

Risk	Exposures	Management of exposures and use of derivatives
Credit risk Credit default risk is the risk of financial or reputational loss due to a counterparty failing to meet their contractual commitments in full and on time. 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.	Wholesale credit risk, including portfolio construction, in the fixed income portfolios managed by AMP Capital.	Managed by individual investment teams. There is also a dedicated credit research team and a specific credit investment committee. The investment risk and performance team provides reports to the AMP Capital Investment Committee.
	Credit risk arising in AMP Bank as part of lending activities and management of liquidity.	Managed as prescribed by AMP Bank's Risk Appetite Statement and reported to the AMP Bank Credit Risk Committee (lending activities) and the AMP Bank ALCO (management of liquidity). Specific detail relating to credit risk management of the AMP Bank loan portfolio is outlined below.

The AMP Concentration and Credit Default Risk Policy sets out the assessment and determination of what constitutes credit concentration risk. The policy sets exposure limits based on each counterparty's credit rating (unless special considerations are defined). Additional limits are set for the distribution of the total portfolio by credit rating bands. Compliance with this policy is monitored and exposures and breaches are reported to portfolio managers, senior management and the AMP Board Risk Committee through periodic financial risk management reports.

Notes to the financial statements

for the year ended 31 December 2021

3.3 FINANCIAL RISK MANAGEMENT *CONTINUED*

(c) Credit risk *continued*

Group Treasury also might enter into credit default swaps to hedge the concentration risk exposure against a specific issuer, or aggregated at the parent entity, when material exposures are over the authorised limit.

The exposures on interest-bearing securities and cash equivalents which impact AMP's capital position are managed by Group Treasury within limits set by the AMP Concentration and Credit Default Risk Policy.

Impairment assessment

DEFINITION OF DEFAULT

AMP Bank considers a financial asset defaulted and hence Stage 3 impaired when payment is 90 days past due or when there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis.

AMP BANK'S INTERNAL RISK GRADING AND PD ESTIMATION PROCESS

AMP Bank's credit risk management department runs expected credit loss models for the residential mortgage book as well as the practice finance loans.

- The Bank's residential mortgage book is a portfolio with a low number of defaults. In recent times, the Bank's residential mortgage book has grown significantly, and a larger history of default data has been captured.
- This has enabled the Bank to successfully develop its internal behavioural scorecards which have been used to replace the benchmark PDs in an endeavour to better risk rank order the portfolio by credit risk worthiness.

Internal risk grades for the residential mortgage book are as follows:

Internal credit rating grade	Internal credit rating grade description
Performing	Not in arrears in the past six months
Past due but not impaired	Accounts in arrears but have not been past 90 days in the last six months
Impaired	90 days past due over the last six months

- For practice finance loans a Probability of Default risk grade model is applied that includes weighted risk factors such as Interest Coverage Ratio, revenue growth, licence compliance rating, experience in business and arrears levels. Practices on watch-list are also downgraded. Credit judgement may be applied to arrive at the final risk grade.

Internal risk grades for practice finance book are as follows:

Internal risk grade	Internal risk Grade description	Broadly corresponds with Standard & Poor ratings of
A to H	Sub-investment Grade	BB+ to CCC
I	Impaired	D

The Bank's interbank and financial institutions exposures as well as exposures to interest-bearing securities are based on external credit rating of the counterparties as follows:

Internal risk grade description	Broadly corresponds with Standard & Poor ratings of
Senior Investment Grade	AAA to A-
Investment Grade	BBB+ to BBB-
Sub-investment Grade	BB+ up to but not including defaulted or impaired

EXPOSURE AT DEFAULT (EAD)

EAD is modelled by applying assumptions in relation to the amortisation of the loans based on scheduled principal and interest repayments except for Stage 3 loans.

LOSS GIVEN DEFAULT (LGD)

For the residential mortgage portfolio the key driver for the LGD calculation is the value of the underlying property, as in a foreclosure scenario the proceeds from the sale of a property are secured by the Bank to repay the loan. The value of the underlying residential property is captured via the LVR which factors both changes in loan balance and estimated value of the collateral using market data and indices. Both floor and haircuts are applied to provide for model risk.

For practice finance loans, the LGD is calculated via assumptions to the reduction in valuations of practices (being a multiple of their recurring cash flows) in the event of default, such as client run-off or deterioration in valuation due to compliance issues. In addition, haircuts are applied to cater for the volatility observed in the register values in the event of default but also general volatility in valuations over time.

3.3 FINANCIAL RISK MANAGEMENT *CONTINUED*

(c) Credit risk *continued*

GROUPING OF FINANCIAL ASSETS FOR EXPECTED CREDIT LOSSES (ECL) CALCULATION

Asset classes where the bank calculates ECL on an individual basis include all Stage 3 assets, and interbank and debt securities at FVOCI.

For all other asset classes ECL is calculated on a collective basis taking into account risk factors for each loan and arriving at the ECL estimate and then aggregating the number for the relevant portfolio.

FORWARD-LOOKING INFORMATION

The Bank's ECL model incorporates a number of forward-looking macroeconomic factors (MEF) that are reviewed on a quarterly basis and approved by the Credit Risk Committee (CRC). The MEF include unemployment, property prices, ASX Index and Cash Rate.

At least three different scenarios with fixed weightings are used in the model. The weightings are reviewed on an annual basis.

The ECL is calculated as the probability weighted average of the provision calculated for each economic scenario.

MANAGEMENT OVERLAY

Management overlay is required to mitigate model risk and any systemic risk that is not recognised by the model.

The management overlays are reviewed on an annual basis or more frequently if required and presented to the CRC and Board Audit Committee (BAC) for sign off.

WRITE-OFFS

Financial assets are written off either partially or in their entirety only when there is no reasonable expectation of recovery. Recovery actions can cease if they are determined as being no longer cost effective or in some situations where the customers have filed for bankruptcy.

CREDIT RISK OF THE LOAN PORTFOLIO IN AMP BANK (THE BANK)

The Bank is predominantly a lender for residential properties – both owner occupied and for investment. In every case the Bank completes a credit assessment, which includes cost of living allowance and requires valuation of the proposed security property.

The Bank's CRC and Board Risk Committee (BRC) oversee trends in lending exposures and compliance with the Risk Appetite Statement. The Bank secures its housing loans with mortgages over relevant properties and as a result manages credit risk on its loans with conservative lending policies and particular focus on the LVR. The LVR is calculated by dividing the total loan amount outstanding by the lower of the Bank's approved valuation amount or the purchase price. Loans with LVR greater than 80% are fully mortgage insured. Mortgage insurance is provided by Genworth Mortgage Insurance Australia Ltd and QBE Lenders Mortgage Insurance Ltd who are both regulated by APRA. The Bank has strong relationships with both insurers and experienced minimal levels of historic claim rejections and reductions.

The average LVR at origination of AMP Bank's loan portfolio for existing and new business is set out in the following table:

LVR %	Existing business 2021 %	New business 2021 %	Existing business 2020 %	New business 2020 %
0 – 50	**17**	**8**	17	6
51 – 60	**12**	**8**	11	7
61 – 70	**19**	**15**	18	13
71 – 80	**36**	**51**	36	50
81 – 90	**13**	**12**	14	16
91 – 95	**2**	**6**	3	8
> 95	**1**	**–**	1	–

RENEGOTIATED LOANS

Where possible, the Bank seeks to restructure loans for borrowers seeking hardship relief rather than take possession of collateral. This may involve capitalising interest repayments for a period and increasing the repayment arrangement for the remaining term of the loan. Once the terms has been renegotiated, the loan is no longer considered past due or an impaired asset unless it was greater than 90 days in arrears in the previous six months or a specific provision has been raised for the loan. The Bank assisted customers by renegotiating $239m (2020: $2,391m) of loans during the year, of which $150m (2020: $2,263m) relates to hardship granted due to COVID-19, that otherwise would be past due or impaired. Hardship assistance granted due to COVID-19 includes assistance in the form of repayment deferrals. As at 31 December 2021, $128m of the total $150m hardship loans have exited the repayment deferral program and are considered to be performing loans. The impact to the Consolidated income statement of loan modifications is not considered to be material.

Notes to the financial statements

for the year ended 31 December 2021

3.3 FINANCIAL RISK MANAGEMENT *CONTINUED*

(c) Credit risk *continued*

COLLATERAL AND MASTER NETTING OR SIMILAR AGREEMENTS

The AMP group obtains collateral and utilises netting agreements to mitigate credit risk exposures from certain counterparties.

(i) Derivative financial assets and liabilities

The credit risk of derivatives is managed in the context of the AMP group's overall credit risk policies and includes the use of Credit Support Annexes to derivative agreements which facilitate the bilateral posting of collateral as well as the clearing of derivative positions on the London Clearing House.

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not automatically meet the criteria for offsetting in the Consolidated statement of financial position. This is because the AMP group, in most cases, does not have any current legally enforceable right to offset recognised amounts.

If these netting arrangements were applied to the derivative portfolio, the derivative assets of $334m would be reduced by $143m to the net amount of $191m and derivative liabilities of $185m would be reduced by $143m to the net amount of $42m (2020: derivative assets of $369m would be reduced by $160m to the net amount of $209m and derivative liabilities of $376m would be reduced by $160m to the net amount of $216m).

(ii) Other collateral

The AMP group has collateral arrangements in place with some counterparties in addition to collateral deposits held with respect to repurchase agreements. The amount and type of collateral required by AMP Bank on housing loans depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

AMP Bank holds collateral against its loans and advances primarily in the form of mortgage interests over property, other registered securities over assets and guarantees.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. In the event of customer default, AMP Bank can enforce any security held as collateral against the outstanding claim. Any loan security is usually held as mortgagee in possession while AMP Bank seeks to realise its value through the sale of property. Therefore, AMP Bank does not hold any real estate or other assets acquired through the repossession of collateral.

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 2021 there was $108m (2020: $127m) of collateral deposits (due to other counterparties) and $47m (2020: $203m) of collateral loans (due from other counterparties) relating to derivative assets and liabilities.

3.4 DERIVATIVES AND HEDGE ACCOUNTING

The group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the group uses derivative financial instruments such as cross-currency swaps and interest rate swaps. When the group designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, the hedges are classified as:

- cash flow hedges;
- fair value hedges; or
- net investment hedges.

Derivative financial instruments are held for risk and asset management purposes only and not for the purpose of speculation. Not all derivatives held are designated as hedging instruments. The group's risk management strategy and how it is applied to manage risk is explained further in note 3.3.

(a) Hedging Instruments

The following table sets out the notional amount of derivative instruments designated in a hedge relationship by relationship type as well as the related carrying amounts.

2021		Notional amount $m	Fair value Assets $m	Fair value Liabilities $m
Hedge type	**Hedging instrument**			
Cash flow	Interest rate swaps	**13,123**	**80**	**55**
Fair value	Cross-currency swaps	**78**	**–**	**16**
Fair value	Interest rate swaps	**62**	**–**	**1**
Fair value and cash flow	Cross-currency interest rate swaps	**828**	**36**	**–**
Net investment	Foreign currency forward contract	**–**	**–**	**–**
Total		**14,091**	**116**	**72**

2020		Notional amount $m	Fair value Assets $m	Fair value Liabilities $m
Hedge type	**Hedging instrument**			
Cash flow	Interest rate swaps	9,568	32	122
Fair value	Cross-currency swaps	83	–	22
Fair value	Interest rate swaps	63	6	–
Fair value and cash flow	Cross-currency interest rate swaps	1,254	–	20
Net investment	Foreign currency forward contract	390	23	1
Total		11,358	61	165

Notes to the financial statements

for the year ended 31 December 2021

3.4 DERIVATIVES AND HEDGE ACCOUNTING *CONTINUED*

(b) Hedged items

The following table sets out the carrying amount of hedged items in fair value hedge relationships, and the accumulated amount of fair value hedge adjustments in these carrying amounts. The group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes.

	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
2021	**Assets $m**	**Liabilities $m**	**Assets $m**	**Liabilities $m**
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	**–**	**60**	**17**	**–**
Medium Term Notes	**–**	**787**	**–**	**34**

	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
2020	**Assets $m**	**Liabilities $m**	**Assets $m**	**Liabilities $m**
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	–	63	16	–
Medium Term Notes	–	1,172	16	–

Fair value hedge relationships resulted in the following changes in the values used to recognise hedge ineffectiveness for the year:

	2021 $m	**2020 $m**
Gain/(loss) on hedging instrument	**53**	(62)
(Loss)/gain on hedged items attributable to the hedged risk	**(48)**	56
Gain/(loss) after ineffectiveness	**5**	(6)

Derivative instruments accounted for as cash flow hedges

The group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at fixed and variable rates. The group uses interest rate swaps to manage interest rate risks and many of the swaps are cash flow hedges for accounting purposes.

Methods used to test hedge effectiveness and establish the hedge ratio include regression analysis and for some portfolio hedge relationships, a comparison to ensure the expected interest cash flows from the portfolio exceed those of the hedging instruments. The main potential source of hedge ineffectiveness from cash flow hedges is mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset.

During the year the AMP group recognised $nil (2020: $nil) due to ineffectiveness on derivative instruments designated as cash flow hedges.

Derivative instruments accounted for as fair value hedges

Fair value hedges are used to protect against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates.

Hedge effectiveness is assessed by comparing the overall changes in the fair value of the hedging instrument against the changes in the fair value of the hedged items attributable to the hedged risks. The main potential source of ineffectiveness on fair value hedges is currency basis spread, which is included in the valuation of the hedging instrument, but excluded from the value of the hedged item.

Hedges of net investments in foreign operations

The group hedges its exposure to changes in exchange rates on the value of its foreign currency denominated seed pool investments. Hedge effectiveness is assessed based on the overall changes in the fair value of the forward contract, primarily using the cumulative dollar offset method.

The AMP group recognised $nil (2020: $nil) due to the ineffective portion of hedges relating to investments in seed pool foreign operations.

3.4 DERIVATIVES AND HEDGE ACCOUNTING *CONTINUED*

The following table sets out the maturity profile of derivative instruments in a hedge relationship.

2021	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Interest rate swaps	**1,096**	**4,010**	**7,473**	**605**	**13,184**
Cross-currency swaps	**–**	**–**	**78**	**–**	**78**
Cross-currency interest rate swaps	**–**	**218**	**610**	**–**	**828**

2020	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Interest rate swaps	1,569	3,814	3,686	562	9,631
Cross-currency swaps	–	–	83	–	83
Cross-currency interest rate swaps	–	426	828	–	1,254
Foreign currency forward contract	390	–	–	–	390

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value exclusive of any transaction costs on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. All derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from the change in fair value of derivatives, except those that qualify as effective cash flow hedges, are immediately recognised in the Consolidated income statement.

Hedge accounting

AMP continues to apply the hedge accounting requirements under AASB 139 *Financial instruments: Recognition and Measurement*.

Cash flow hedges

The effective portion of changes in the fair value of cash flow hedges is recognised (including related tax impacts) in Other comprehensive income. The ineffective portion is recognised immediately in the Consolidated income statement. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the Consolidated income statement in the period when the hedged item affects profit or loss. Hedge accounting is discontinued when a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated 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 Consolidated income statement.

Fair value hedges

Changes in the fair value of fair value hedges are recognised in the Consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If a hedge no longer meets the criteria for hedge accounting, the cumulative gains and losses recognised on the hedged item will be amortised over the remaining life of the hedged item.

Net investment hedges

The effective portion of changes in the fair value of net investment hedges is recognised (including related tax impacts) in Other comprehensive income. Any ineffective portion is recognised immediately in the Consolidated income statement. The cumulative gain or loss existing in equity remains in equity until the foreign investment is disposed of.

Notes to the financial statements

for the year ended 31 December 2021

3.5 CAPITAL MANAGEMENT

AMP holds capital to protect customers, creditors and shareholders against unexpected losses. There are a number of ways AMP assesses the adequacy of its capital position. Primarily, AMP aims to:

– maintain a sufficient surplus above minimum regulatory capital requirements (MRR) to reduce the risk of breaching MRR; and
– maintain the AMP group's credit rating.

These factors are balanced when forming AMP's risk appetite as approved by the AMP Limited Board.

Calculation of capital resources

The AMP group's eligible capital resources include ordinary equity and certain hybrid capital instruments. Adjustments to these amounts are made for intangibles, associate equity investments and other assets required to be removed by regulation.

The table below shows the AMP group's capital resources at reporting date:

	2021 $m	2020 $m
AMP statutory equity attributable to shareholders of AMP Limited	**3,980**	4,266
Accounting mismatch and other adjustments [1]	**(106)**	(54)
AMP shareholder equity	**3,874**	4,212
Goodwill and other intangibles [2]	**(344)**	(629)
Equity investments [3]	**(1,607)**	(1,442)
Other regulatory adjustments [4]	**(6)**	16
Subordinated bonds eligible as Level 3 capital	**16**	33
Level 3 eligible capital	**1,933**	2,190
Eligible hybrid capital resources [5]	**579**	316
Total eligible capital resources	**2,512**	2,506
Minimum regulatory requirements (MRR)	**1,316**	1,244
Target capital requirements	**813**	738
Total capital requirements	**2,129**	1,982
Surplus capital above target requirements	**383**	524

1 Accounting mismatches and other adjustments relate to the net assets of the AMP Foundation and surplus' recognised on any defined benefit plans.
2 Includes $14m of intangibles classified as Assets held for sale on the Consolidated statement of financial position (2020: nil).
3 Equity investments relate to holdings of associate equity investment where AMP holds a minority interest. As at 31 December 2021, Resolution Life NOHC ($509m) and AMP Capital Infrastructure Debt Fund V USD LP ($8m) are reclassified from an associate equity investment to assets held for sale.
4 Other regulatory adjustments relate to securitisation, deferred tax assets and other provisions for AMP Bank, deferred tax assets for Australian wealth management and include an adjustment for eligible seed and sponsor investment classified as equity investments in AMP Capital.
5 Eligible hybrid capital instruments are subordinated debt which is able to be included as eligible capital for the purpose of meeting minimum regulatory requirements.

3.5 CAPITAL MANAGEMENT *CONTINUED*

Capital requirements

A number of the operating entities within the AMP group of companies are regulated and are required to meet minimum regulatory capital requirements (MRR). In certain circumstances, APRA or other regulators may require AMP and other entities of the AMP group to hold a greater level of capital to support its business and/or restrict the amount of dividends that can be paid by them. Any such adjustments would be incorporated into the minimum regulatory requirements and monitored as part of the capital management policy.

The main minimum regulatory capital requirements for AMP's businesses are:

Operating entity	Minimum regulatory capital requirement
AMP Bank Limited (AMP Bank)	Capital requirements as specified under the APRA ADI Prudential Standards
N. M. Superannuation Proprietary Limited	Operational Risk Financial Requirements as specified under the APRA Superannuation Prudential Standards
AMP Capital Investors Limited and other ASIC regulated businesses	Capital requirements under AFSL requirements

The AMP group maintains capital targets reflecting their material risks (including financial risk, product risk and operational risk) and AMP's risk appetite. The target capital requirement is a management guide to the level of excess capital that the AMP group seeks to carry to reduce the risk of breaching MRR.

AMP Limited and AMP Bank have Board-approved minimum capital levels above APRA requirements, with additional capital targets held above these amounts. Capital targets are also set for AMP Capital to cover risk associated with seed and sponsor capital investments and operational risk. Other components of AMP group's capital targets include amounts relating to Group Office investments, defined benefit funds and other operational risks.

All of the AMP group regulated entities have at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject.

Notes to the financial statements

for the year ended 31 December 2021

4

SECTION

EMPLOYEE DISCLOSURES

This section provides details on the various programs the AMP group uses to reward and recognise employees, including key management personnel.

4.1 DEFINED BENEFIT PLANS

AMP contributes to defined benefit plans which provide benefits to employees, and their dependants, on resignation, retirement, disability or death of the employee. The benefits are based on years of service and an average salary calculation. All defined benefit plans are now closed to new members.

The characteristics and risks associated with each of the defined benefit plans are described below:

Plan details	Australia	New Zealand
Plan names	AMP Australia Plan I and AMP Australia Plan II.	AMP New Zealand Plan I and AMP New Zealand Plan II.
Entitlements of active members	A lump sum or pension on retirement. Pensions provided are lifetime indexed pensions with a reversionary spouse pension.	Accumulation benefits and a lump sum payment on retirement.
Governance of the plans	The plans' trustees – this includes administration of the plan, management and investment of the plan assets, and compliance with superannuation laws and other applicable regulations.	The plans' trustees – this includes administration of the plan, management and investment of the plan assets, and looking after the interests of all beneficiaries.
Valuations required	Every year.	Every three years.
Key risks	The risk of actual outcomes being different to the actuarial assumptions used to estimate the defined benefit obligation, investment risk and legislative risk.	
Date of valuation	31 March 2021.	31 December 2020.
Additional recommended contributions	10% to 15% of members' salaries plus plan expenses.	No additional contributions are required until 31 December 2023, at which point the requirement will be reassessed.

4.1 DEFINED BENEFIT PLANS *CONTINUED*

(a) Defined benefit asset/(liability)

	2021 $m	2020 $m
Present value of wholly-funded defined benefit obligations	**(782)**	(882)
Less: Fair value of plan assets	**785**	784
Defined benefit asset/(liability) recognised in the Consolidated statement of financial position	**3**	(98)
Movement in defined benefit asset/(liability)		
Deficit at the beginning of the year	**(98)**	(101)
Plus: Total (expenses)/income recognised in the Consolidated income statement	**(2)**	1
Plus: Employer contributions	**1**	1
Plus: Foreign currency exchange rate changes	**1**	(4)
Plus: Actuarial gains recognised in Other comprehensive income[1]	**101**	5
Defined benefit asset/(liability) recognised at the end of the year	**3**	(98)

1 The cumulative net actuarial gains and losses recognised in the Statement of comprehensive income is a $199m gain (2020: $98m gain).

(b) Reconciliation of the movement in the defined benefit asset/(liability)

	Defined benefit obligation		Fair value of plan assets	
	2021 $m	2020 $m	2021 $m	2020 $m
Balance at the beginning of the year	**(882)**	(919)	**784**	818
Current service cost	**(2)**	–	**–**	–
Past service cost/curtailments	**–**	1	**–**	–
Interest (cost)/income	**(2)**	(10)	**2**	10
Net actuarial gains/(losses)	**62**	(14)	**39**	19
Employer contributions	**–**	–	**1**	1
Contributions by plan participants	**–**	–	**–**	–
Foreign currency exchange rate changes	**(2)**	2	**3**	(6)
Benefits paid	**44**	58	**(44)**	(58)
Balance at the end of the year	**(782)**	(882)	**785**	784

Notes to the financial statements

for the year ended 31 December 2021

4.1 DEFINED BENEFIT PLANS *CONTINUED*

(c) Analysis of defined benefit surplus/(deficit) by plan

	Fair value of plan assets		Present value of plan obligation		Net recognised surplus/(deficit)		Actuarial gains/(losses)	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
AMP Australia Plan I	**283**	281	**(296)**	(334)	**(13)**	(53)	**40**	(5)
AMP Australia Plan II	**397**	400	**(356)**	(386)	**41**	14	**27**	24
AMP New Zealand Plan I	**17**	17	**(20)**	(24)	**(3)**	(7)	**4**	(1)
AMP New Zealand Plan II	**88**	86	**(110)**	(138)	**(22)**	(52)	**30**	(13)
Total	**785**	784	**(782)**	(882)	**3**	(98)	**101**	5

(d) Principal actuarial assumptions

The following table sets out the principal actuarial assumptions used as at the reporting date in measuring the defined benefit obligations of the Australian and New Zealand defined benefit funds:

	AMP Plan I				AMP Plan II			
	Australia		New Zealand		Australia		New Zealand	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
Weighted average discount rate	**3.0**	2.1	**2.7**	0.9	**3.3**	2.4	**2.7**	1.4
Expected rate of salary increases	**n/a**	n/a	**n/a**	n/a	**2.8**	3.3	**3.0**	3.0

(e) Allocation of assets

The asset allocations of the defined benefit funds are shown in the following table:

	AMP Plan I				AMP Plan II			
	Australia		New Zealand		Australia		New Zealand	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
Equity	**42**	41	**52**	38	**18**	15	**52**	46
Fixed interest	**38**	41	**37**	38	**54**	59	**37**	34
Property	**9**	8	**0**	4	**6**	6	**0**	4
Cash	**4**	4	**11**	14	**9**	8	**11**	14
Other	**7**	6	**0**	6	**13**	12	**0**	2

4.1 DEFINED BENEFIT PLANS *CONTINUED*

(f) Sensitivity analysis

The defined benefit obligation has been recalculated for each scenario by changing only the specified assumption as outlined below, whilst retaining all other assumptions as per the base case. The table below shows the increase (decrease) for each assumption change. Where an assumption is not material to the fund it has been marked as n/a.

2021	AMP Plan I				AMP Plan II			
	Australia		New Zealand		Australia		New Zealand	
Assumption	(+) $m	(-) $m	(+) $m	(-) $m	(+) $m	(-) $m	(+) $m	(-) $m
Discount rate (+/- 0.5%)[1]	**(15)**	**16**	**n/a**	**2**	**(19)**	**21**	**n/a**	**13**
Expected salary increase rate (0.5%)	**n/a**	**n/a**	**n/a**	**n/a**	**–**	**n/a**	**n/a**	**n/a**
Expected deferred benefit crediting rate (0.5%)	**n/a**	**n/a**	**n/a**	**n/a**	**–**	**n/a**	**n/a**	**n/a**
Pensioner indexation assumption (0.5%)[2]	**16**	**(15)**	**1**	**n/a**	**19**	**(17)**	**11**	**n/a**
Pensioner mortality assumption (10%)	**n/a**	**11**	**n/a**	**n/a**	**n/a**	**8**	**n/a**	**n/a**
Life expectancy (additional 1 year)	**n/a**	**n/a**	**1**	**n/a**	**n/a**	**n/a**	**4**	**n/a**

2020	AMP Plan I				AMP Plan II			
	Australia		New Zealand		Australia		New Zealand	
Assumption	(+) $m	(-) $m	(+) $m	(-) $m	(+) $m	(-) $m	(+) $m	(-) $m
Discount rate (+/- 0.5%)[1]	(18)	20	n/a	2	(26)	29	n/a	18
Expected salary increase rate (0.5%)	n/a	n/a	n/a	n/a	–	n/a	n/a	n/a
Expected deferred benefit crediting rate (0.5%)	n/a	n/a	n/a	n/a	2	n/a	n/a	n/a
Pensioner indexation assumption (0.5%)[2]	20	(18)	1	n/a	26	(23)	14	n/a
Pensioner mortality assumption (10%)	n/a	13	n/a	n/a	n/a	11	n/a	n/a
Life expectancy (additional 1 year)	n/a	n/a	1	n/a	n/a	n/a	4	n/a

1 (1%) discount rate applied to AMP New Zealand Plan I and II.
2 1% indexation increase applied to AMP New Zealand Plan I and II.

Notes to the financial statements

for the year ended 31 December 2021

4.1 DEFINED BENEFIT PLANS *CONTINUED*

(g) Expected contributions and maturity profile of the defined benefit obligation

	AMP Plan I		AMP Plan II	
	Australia	New Zealand	Australia	New Zealand
	$m	$m	$m	$m
Expected employer contributions	–	–	–	–
Weighted average duration of the defined benefit obligation (years)	9	8	12	12

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Defined benefit plans

The AMP group recognises the net deficit or surplus position of each fund in the Consolidated statement of financial position. The deficit or surplus is measured as the difference between the fair value of the funds' assets and the discounted defined benefit obligations of the funds, using discount rates determined with reference to market yields on high quality corporate bonds at the end of the reporting period.

After taking into account any contributions paid into the defined benefit funds during the period, movements in the net surplus or deficit of each fund, except actuarial gains and losses, are recognised in the Consolidated income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions over the period and the returns on plan assets are recognised (net of tax) directly in retained earnings through Other comprehensive income.

Contributions paid into defined benefit funds are recognised as reductions in the deficit.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Defined benefit asset/liability

The value of the group's defined benefit obligations are outputs of actuarial models dependent on a number of underlying assumptions. Managed applies judgement in selecting the assumptions used. Key assumptions include:

- discount rate;
- expected future salary increases;
- pension indexation;
- mortality; and
- life expectancy.

4.2 SHARE-BASED PAYMENTS

AMP has multiple employee share-based payment plans. Share-based payment plans help create alignment between employees participating in those plans (participants) and shareholders. Information on plans which AMP currently offers is provided below.

The following table shows the expense recorded for AMP share-based payment plans during the year:

	2021 $'000	2020 $'000
Plans currently offered		
Performance rights[1]	**7,854**	12,123
Share rights and Restricted Shares – equity settled	**9,143**	7,461
Share rights – cash settled	**2,759**	1,873
Share options	**–**	53
Total share-based payments expense	**19,756**	21,510

1 Non-market performance rights which were forfeited or where performance conditions were not met were reversed during the year.

(a) Performance rights

The Executive KMP receive their long-term incentive (LTI) award in the form of performance rights. This is intended to ensure the interests of those executives, who are able to most directly influence company performance, are appropriately aligned with the interests of shareholders.

Plan	LTI awards
Overview	Performance rights give the participant the right to acquire one fully paid ordinary share in AMP Limited upon meeting specific performance hurdles. They are granted at no cost to the participant and carry no dividend or voting rights until they vest. This award may be settled through an equivalent cash payment, at the discretion of the board.
Vesting conditions	2019 LTI award (Transformation Incentive Award) The vesting of the performance rights is subject to two separate gateways: Risk and Conduct Gateway – if a participant's performance and conduct is not in line with AMP's expectations, the board has discretion to amend the vesting outcome (including to zero). Performance Gateway and Hurdle – a performance gateway is included so that no awards will vest if both the Compound Annual Growth Rate (CAGR) is negative AND the CAGR is below the benchmark index*. For risk and control roles i.e. Chief Risk Officer – the vesting outcome in relation to 25% of the award will be determined by the Remuneration Committee at its sole discretion. The other 75% of the award will be subject to the performance hurdle. In determining the comparator group, all entities other than those in the global industry classification standard (GICS) energy sector and GICS metals and mining industry are classified as industrial companies. * The benchmark index is constructed from an equal weighted index of ASX 100 financial services companies (excluding A-REITs).

Notes to the financial statements

for the year ended 31 December 2021

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(a) Performance rights *continued*

Plan	LTI awards
Vesting conditions *(continued)*	**2020 LTI award** No performance rights were granted under an LTI plan in 2020. **2021 LTI award** The performance period is 1 January 2021 to 31 December 2023 and the rights will convert to Restricted Shares on or around the 1 January 2024 (Conversion Date) if the conditions of the Offer are met. On the Conversion Date, participants may receive one fully paid Share for every Right awarded. The Shares will remain restricted for an additional one year, under a holding lock, until the Vesting Date is reached. The vesting of the performance rights is subject to two separate gateways: 1. Risk and Conduct Gateway – if a participant's performance and conduct is not in line with AMP's expectations, the board has discretion to amend the vesting outcome (including to zero). 2. The number of Rights that vest under the Award will be determined with reference to a comparison of the compound annual growth rate (CAGR) in the Company's total shareholder return (TSR) relative to the CAGR in Total Shareholder Return (TSR) to the peer group of ASX 100 financial companies excluding A-REITs as at 1 January 2021 measured over the performance period.
Vesting/performance period	– 2019 LTI award – three and a half years for rights granted in 2019. – 2021 LTI award – three years for rights plus a one year restriction period (holding lock) for LTI awards granted in 2021.
Vested awards	Vested performance rights are automatically converted to shares.
Unvested awards	Unvested awards are forfeited if the participant voluntarily ceases employment or is dismissed for misconduct.

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(a) Performance rights *continued*

CEO Sign-on Award

As part of the Chief Executive Officer's (CEO) incentive package on appointment in 2021, the CEO was granted an award of rights with performance conditions to replace existing incentive arrangements foregone with the previous employer. The award comprises:

Plan	CEO Sign-on Performance Rights Award
Overview	The Sign-on performance rights give the CEO the right to acquire one fully paid ordinary share in AMP Limited (per right) upon meeting specific performance conditions, including hurdles that are subject to an absolute and relative total shareholder return (TSR) measures. The award was granted at no cost to the CEO and carries no dividend or voting rights. This award may be settled through an equivalent cash payment, at the discretion of the board.
Vesting conditions	**Absolute Total Shareholder Return (aTSR) Hurdle** Absolute TSR performance measures the compound annual growth (CAGR) in the Company's TSR over the relevant Performance Period. The percentage of Rights subject to the absolute TSR hurdle which will be eligible to vest, if any, will be determined by reference to the following schedule:

Level of achievement	Vesting level of Rights subject to the absolute TSR hurdle in the relevant tranche
CAGR of 8.5% or above	100%
Between positive TSR and 8.5% CAGR	Pro-rata straight line vesting between 50% and 100%
Positive TSR	50%
Nil or Negative TSR	0%

Relative Total Shareholder Return (rTSR) Hurdle

Relative TSR performance measures the Company's TSR performance relative to a peer group over the relevant Performance Period.

The comparator group for the relative TSR performance hurdle will be the ASX100 Financials index as at 30 July 2021. The comparator group may be adjusted by the Board to take into account corporate actions, including but not limited to takeovers, mergers, de-mergers or de-listing. The percentage of your Rights subject to the relative TSR hurdle which will be eligible to vest, if any, will be determined by reference to the following schedule:

Percentile ranking	Vesting level of Rights subject to the relative TSR hurdle in the relevant tranche
75th percentile or higher	100%
Between the 50th and 75th percentile	Pro-rata straight line vesting between 50% and 100%
50th percentile	50%
Below the 50th percentile	0%

Vesting period/Testing dates	The board will test the performance hurdles on or around the following testing dates: – 22 November 2021 (First Testing Date); – 22 November 2023 (Second Testing Date); and – 22 November 2024 (Third Testing Date); If the performance hurdles are met, the rights vest and become exercisable.
Vested awards	Vested rights are automatically converted to AMP Limited shares on behalf of the CEO.
Unvested awards	Unvested awards are forfeited if the CEO voluntarily ceases employment or is dismissed for misconduct.

Notes to the financial statements

for the year ended 31 December 2021

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(a) Performance rights *continued*

Valuation of performance rights

The values for performance rights are based on valuations prepared by an independent external consultant. The valuations are based on the 10-day volume weighted average share price over the 10-day trading period prior to the start of the award's valuation period. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's dividend yield and volatility over an appropriate period.

In determining the share-based payments expense, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the performance period, this is revisited each reporting date.

Valuations are prepared by an independent external consultant. The valuations are based on AMP's closing share price at the valuation date. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's dividend yield and volatility over an appropriate period.

The following table shows the factors considered in determining the value of the performance rights granted during the period:

Grant date	Share price	Contractual life (years)	Dividend yield	Volatility [1]	Risk-free rate [1]	TSR performance hurdle discount	TSR performance rights fair value
01/01/2021	$1.65	4.0	4.0%	44%	0.1%	51%	$0.81

1 Applies to performance rights subject to a relative TSR performance hurdle.

The following table shows the factors considered in determining the value of the CEO Sign-on Rights Award granted during the period with an absolute and relative TSR hurdle:

Grant date	Share price	Contractual life (years)	Dividend yield	Volatility	Risk-free rate	TSR performance hurdle discount	Share rights fair value
09/08/2021	$1.075	0.3	0.0%	42%	0.8%	46%	$0.59
09/08/2021	$1.075	2.3	3.0%	42%	0.8%	42%	$0.63
09/08/2021	$1.075	3.3	5.0%	42%	0.8%	43%	$0.62

Grant date	Share price	Contractual life (years)	Dividend yield	Volatility	Risk-free rate	TSR performance hurdle discount	Share rights fair value
09/08/2021	$1.075	0.3	0.0%	42%	0.8%	49%	$0.55
09/08/2021	$1.075	2.3	3.0%	42%	0.8%	41%	$0.64
09/08/2021	$1.075	3.3	5.0%	42%	0.8%	41%	$0.64

The following table shows the movement in number of performance rights outstanding during the period:

Grant date	Balance at 1 Jan 2021	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 Dec 2021
19/05/2017	1,880,700	–	–	(1,880,700) [1]	–
12/09/2019	30,357,128	–	–	(5,451,010)	24,906,118
01/01/2021	–	2,801,550	–	–	2,801,550
09/08/2021	–	2,807,038	(638,168)	(122,010)	2,046,860
Total	**32,237,828**	**5,608,588**	**(638,168)**	**(7,453,720)**	**29,754,528**

1 AMP's TSR performance against its peer comparator group was measured for the period 1 January 2017 up to 31 December 2020. The outcome resulted in nil vesting of the award and the award lapsed in full.

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(a) Performance rights *continued*

CEO sign-on award vesting outcomes:

- Sign-on performance rights (tranche 1) with an absolute TSR measure representing 27% of the total grant was tested on 22 November 2021 resulting in full vesting of 190,038 units;
- Sign-on performance rights (tranche 1) with a relative TSR measure representing 27% of the total grant was tested on 22 November 2021 resulting in a partial vesting of 448,130 units and the remaining 122,010 units were lapsed.

Performance test results are provided in the table below:

Grant date	Performance period	Measure	AMP's TSR performance	AMP's CAGR TSR performance	Vesting outcome (portion of tranche vested)
09 Aug 2021	2 Aug – 22 Nov 2021	Absolute TSR	8.49%	30.4%	100%

Grant date	Performance period	Measure	AMP's TSR performance	AMP's percentile rank	Vesting outcome (portion of tranche vested)
09 Aug 2021	2 Aug – 22 Nov 2021	Relative TSR	8.49%	64.3%	78.6%

(b) Share rights

- LTI participants below the Executive KMP may be awarded share rights as part of their overall LTI award.
- Short-term Incentive deferral participants are nominated executives and selected senior leaders who have the ability to impact AMP's financial soundness. This requires a portion of the participant's annual short-term incentive outcome to be deferred and awarded as share rights.
- Transition Incentive awards were made to select participants in the form of share rights as a transitionary award between remuneration arrangements and the finalisation of strategy.
- Retention awards were made to selected senior leaders who are critical to on-going operations and the delivery of AMP's strategy during the portfolio review and the completion of any subsequent corporate transactions.
- Enterprise Profit Share Plan supports AMP Capital's remuneration framework by aligning its strategic intent and rewarding behaviour that leads to sustainably increased profit and shareholder value. The participants are the AMP Capital Leadership Team whereby a portion of their annual profit share outcome is deferred into share rights.
- Deferred Bonus Equity Plan applies to selected AMP Capital participants whereby a portion of their annual short-term incentive outcome (above a specified threshold) is deferred into share rights.

Notes to the financial statements

for the year ended 31 December 2021

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(b) Share rights *continued*

Plan	Long-term Incentive Plan	Short-term incentive Deferral Plan, Transition Incentive award and Retention award	Enterprise Profit Share Plan and Deferred Bonus Equity Plan
Overview	Share rights give the participant the right to acquire one fully paid ordinary share in AMP Limited after a specified service period. They are granted at no cost to the participant and carry no dividend or voting rights until they vest. This award may be settled through an equivalent cash payment at the discretion of the board. All awards are subject to ongoing employment, compliance with AMP policies and the board's discretion.		
Vesting conditions/period	AMP group participants **2017 LTI** – Four years continued service. No share rights under the LTI plan were granted in 2018, 2019 or 2020. **2021 LTI** – Four years continued service – the award carries voting rights and a dividend equivalent on any Rights that may vest. AMP Capital participants Continued service for three years. Some awards may also vary where the share rights are awarded as a sign-on equity award or to retain an employee for a critical period.	Short-term Incentive deferral/ 2019 and 2020 STI awards with 40% deferral and continued service for two or four years. Transition Incentive award 2019 – the award is split into two tranches with continued service for approximately one and two years respectively. Retention award 2020 – the award has 40% of the award granted in share rights and is subject to a one year service condition plus an additional three year holding period. Vesting scheduled to occur in 2024. 2021 STI 60% delivered in equity. CEO awards: one third of award to vest over years two, three and four. AMP's Group Executive Committee awards: 50% of award to vest in year two and 50% at year three Other STI awards with a 40% deferral and continued service for two or four years	Enterprise Profit Share Plan The grant is split into two tranches with continued service for two and three years respectively. The award carries voting rights and a dividend equivalent on any Rights that may vest. For awards relating to the 2019, 2020 and 2021 performance years, share rights were granted to select participants. The award was subject to a one year service condition. After this period, an additional three year holding period is applicable to participants except for the AMP Capital Chief Executive Officer where the holding period is four years. Deferred Bonus Equity Plan The grant is split into two tranches with continued service for two and three years respectively.
Vested awards	Vested share rights are automatically converted to shares on behalf of participants.		
Unvested awards	Unvested awards are forfeited if the participant voluntarily ceases employment or is dismissed for misconduct.		

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(b) Share rights *continued*

CEO Sign-on Share Rights Award

As part of the CEO's sign-on package on appointment, the CEO was granted an award of share rights with a service (employment) condition to compensate for incentives forgone from the CEO's previous employer.

Plan	CEO Sign-on Share Rights Award
Overview	The sign-on share rights give the CEO the right to acquire one fully paid ordinary share in AMP Limited (per right) after a specified service period. They were granted at no cost to the CEO and carry no dividend or voting rights until they vest. This award may be settled through an equivalent cash payment at the discretion of the board.
Vesting conditions/period	The rights may vest in accordance with the vesting schedule set out below: – 50% on 22 November 2021 – 32% on 22 November 2022 – 14% on 22 November 2023 – 4% on 22 November 2024
Vested awards	Vested share rights are automatically converted to shares on behalf of the former CEO.
Unvested awards	Unvested awards are forfeited if the CEO voluntarily ceases employment or is dismissed for misconduct.

Valuation of share rights

The fair value of share rights has been calculated as at the grant date, by external consultants using a 'discounted cash flow' methodology. Fair value has been discounted for the present value of dividends expected to be paid during the vesting period to which the participant is not entitled. For the purposes of the valuation it is assumed share rights are exercised as soon as they have vested. Assumptions regarding the dividend yield have been estimated based on AMP's dividend yield over an appropriate period.

In determining the share-based payments expense, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the performance period.

For the current CEO's share rights awards, the valuations are prepared by an independent external consultant. The valuations are based on AMP's closing share price at the valuation date. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's dividend yield and volatility over an appropriate period.

The following table shows the factors which were considered in determining the independent fair value of the share rights granted during the period:

Grant date	Share price	Contractual life (years)	Dividend yield	Dividend discount	Fair value
01/04/2021	$1.35	1.9	3.0%	7%	$1.25
01/04/2021	$1.35	3.9	3.0%	13%	$1.18
01/04/2021	$1.35	0.9	n/a	2%	$1.33
01/04/2021	$1.35	1.9	3.0%	7%	$1.25
01/04/2021	$1.35	2.9	3.0%	10%	$1.22
01/04/2021	$1.35	4.0	n/a	2%	$1.33
09/08/2021	$1.07	0.3	0.0%	0%	$1.075
09/08/2021	$1.07	1.3	3.0%	0%	$1.075
09/08/2021	$1.07	2.3	5.0%	2%	$1.05
09/08/2021	$1.07	3.3	5.0%	7%	$1.00

Notes to the financial statements

for the year ended 31 December 2021

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(b) Share rights *continued*

The following table shows the movement in share rights outstanding during the period:

Grant Date	Balance at 1 Jan 2021	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 Dec 2021
19/05/2017	974,463	–	(974,463)	—	—
02/04/2018	1,507,500	–	(1,488,308)	(19,192)	—
13/08/2018	53,191	–	(53,191)	—	—
03/12/2018	40,816	–	(40,816)	—	—
21/08/2018	726,744	–	(436,046)	—	290,698
01/04/2019	2,127,923	–	(222,163)	(298,788)	1,606,972
10/05/2019	957,447	–	(957,447)	—	–
17/05/2019	773,997	–	—	—	773,997
19/07/2019	91,787	–	(53,140)	—	38,647
20/09/2019	8,287	–	—	(8,287)	—
01/04/2020	7,357,477	–	(1,096,400)	(412,320)	5,848,757
23/11/2020	1,627,444	–	—	(187,977)	1,439,467
01/04/2021	—	4,496,095	—	—	4,496,095
09/08/2021	—	1,015,806	(507,243)	—	508,563
Total	**16,247,076**	**5,511,901**	**(5,829,217)**	**(926,564)**	**15,003,196**

(c) Restricted shares

AMP Capital Enterprise Profit Share Plan

The AMP Capital Leadership Team is comprised of a select group of senior executives who are eligible to participate in the Enterprise Profit Share Plan. This plan was designed to support AMP Capital's remuneration framework by aligning its strategic intent and rewarding behaviour that leads to sustainably increased profit and shareholder value. It is required that 40% of the participants' profit share outcomes be deferred. Half of the deferred component is awarded in the form of restricted shares for participants who reside in Australia with the exception of the AMP Capital Chief Executive Officer. The objective of this is to create greater alignment with our shareholders. The equity component of this plan was granted in 2019.

No restricted shares were granted under the above disclosed Plan in 2020 or 2021, however, share rights were granted to eligible participants.

Plan	Enterprise Profit Share Plan
Overview	The deferred component of the 2018 Enterprise Profit Share award was granted in the form of restricted shares. Restricted shares are fully paid ordinary shares in AMP Limited that are held in the AMP Employee Share Trust on behalf of the participant until the specified service/holding period has been met. They were granted at no cost to participants and carry the same dividend or voting rights as other fully paid ordinary shares. Any dividends paid on shares are received in the ordinary course on the dividend payment date(s).
Vesting conditions/period	The restricted shares will vest after one year and continue to be subject to a disposal restriction for an additional three year period. Prior to each vesting date and the release date, the board will undertake a conduct/risk review to confirm that vesting and release of the award aligns with the conduct and risk outcomes of the group.
Vested awards	On the relevant release dates, the restriction on the shares is released.
Unvested awards	Unvested awards are forfeited if the participant voluntarily ceases employment or is dismissed for misconduct.

4.2 SHARE-BASED PAYMENTS *CONTINUED*

AMP Executive Performance Incentive Plan

The Executive Performance Incentive (EPI) Plan takes a combined incentive approach, whereby a portion of the participant's annual EPI outcome is paid out in cash and the remainder is deferred as restricted shares or share rights. The objective of this plan is to create equity ownership across a select group of senior executives if performance objectives are met. The equity component of this plan was granted in 2019.

No restricted share awards were granted under the above disclosed Plan in 2020 or 2021.

Plan	Executive Performance Incentive Plan
Overview	For 2019, the deferred component of the Executive Performance Incentive Plan was granted in the form of restricted shares. Restricted shares are fully paid ordinary shares in AMP Limited that are held in the AMP Employee Share Trust on behalf of the participant until the specified service/holding period has been met. They were granted at no cost to participants and carry the same dividend or voting rights as other fully paid ordinary shares. Any dividends paid on shares are received in the ordinary course on the dividend payment date(s).
Vesting conditions/period	The restricted shares will vest after one year and continue to be subject to a disposal restriction for an additional three year period. Prior to each of the vesting date and the release date, the board will undertake a conduct/risk review to confirm that vesting and release of the award aligns with the conduct and risk outcomes of the group.
Vested awards	On the relevant release dates, the restriction on the shares is released. Some shares may be released early for participants who cease employment to assist participants in managing their tax liability.
Unvested awards	Unvested awards are forfeited if the participant voluntarily ceases employment or is dismissed for misconduct.

Salary Sacrifice Plans

2019 AMP EMPLOYEE SHARE PLAN – $1,000 TAX EXEMPT PLAN

All permanent employees as at 12 December 2018 were offered a $1,000 gift of shares subject to employment on the allocation date in March 2019. These shares are subject to a restriction on sale and transfer for up to three-years from the date they are allocated. Any shares acquired as a gift will be released to the participant at the end of the three-year period or when they leave employment with AMP (whichever is earlier).

2020 AMP EMPLOYEE SHARE PLAN – $1,000 TAX EXEMPT PLAN

For the period 1 April 2020, eligible participants may acquire $1,000 fully paid ordinary shares in AMP by sacrificing $1,000 of their 2019 short-term incentive (STI) award. These shares are subject to a restriction on sale and transfer for up to three-years from the date they are allocated. Any shares acquired will be released to the participant at the end of the three-year period or when they leave employment with AMP (whichever is earlier).

The AMP $1,000 Tax Exempt Plan was not reoffered to employees in 2021 in its current format.

2019–2021 AMP EMPLOYEE SHARE PLAN – $5,000 SALARY SACRIFICE PLAN

All permanent employees in Australia were offered the opportunity to salary sacrifice between $1,000 – $5,000 over a 12-month period to acquire shares in AMP. AMP offered a matching contribution on a 2:5 basis (1:5 in 2019 and 2020), meaning that employees who opted to salary sacrifice $5,000 would receive an upfront matched allocation of $2,000 in AMP shares ($1,000 in AMP shares in 2019 and 2020). The salary sacrifice and matching shares are both held in an employee share plan trust on behalf of the employees and are subject to a restriction on sale and transfer for up to three years from the date they are allocated.

Offer	Purchased Shares	Matching Shares [1]
2019	Any purchased shares acquired during 2019, 2020 and 2021 will be released to the participant at the end of the three-year period.	Matching shares will be released at the end of the three-year period or when they leave employment with AMP (whichever is earlier).
2020 and 2021		Matching shares will be released at the end of the two-year period or when they leave employment with AMP (whichever is earlier).

1 Matching shares are forfeited if a participant voluntarily ceases employment before the end of the holding period.

Notes to the financial statements

for the year ended 31 December 2021

4.2 SHARE-BASED PAYMENTS *CONTINUED*

(c) Restricted shares *continued*

Valuation of restricted shares

The restricted share awards are based on valuations prepared by an independent external consultant. The valuations are based on the 10-day volume weighted average share price over the 10-day trading period prior to the start of the award's valuation period. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's dividend yield and volatility over an appropriate period.

For the AMP Employee Share Plan $1,000 Tax Exempt Plan and $5,000 Salary Sacrifice Plan, the fair value of the shares was determined as the market price of AMP ordinary shares on the grant date. As employees holding restricted shares are entitled to dividend payments, no adjustment has been made to the fair value in respect of future dividend payments.

In determining the share-based payments expense for the period, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the vesting period.

Grant date	Share price	Contractual life (years)	Vesting Date	Dividend yield	Fair value
25/02/2019	$2.38	2.0	15/02/2021	n/a	$2.38
25/02/2019	$2.38	3.0	15/02/2022	n/a	$2.38
14/03/2019	$2.39	3.0	14/03/2022	n/a	$2.39
26/04/2019	$2.39	3.0	26/04/2022	n/a	$2.39
13/08/2019	$1.81	0.0	15/08/2021	4.0%	$1.81
28/04/2020	$1.675	2.0	30/04/2022	n/a	$1.675
30/04/2021	$1.45	2.0	30/04/2023	n/a	$1.45

The following table shows the movement in restricted shares outstanding for the period:

Grant date	Balance at 1 Jan 2021	Granted during the year	Released during the year	Lapsed during the year	Balance at 31 Dec 2021
25/02/2019	791,143	—	(791,143)	—	—
14/03/2019	1,446,144	—	(407,085)	—	1,039,059
26/04/2019	263,778	—	(38,145)	(37,065)	188,568
17/05/2019	1,308,206	—	(230,854)	—	1,077,352
13/08/2019	234,932	—	(234,932)	—	—
28/04/2020	289,737	—	(33,942)	(37,224)	218,571
30/04/2021	—	713,159	(39,084)	(93,985)	580,090
Total	**4,333,940**	**713,159**	**(1,775,185)**	**(168,274)**	**3,103,640**

(d) Former CEO awards

The former CEO was awarded a range of awards during his tenure as CEO of AMP and as part of his exit agreement with the Company, those awards remain on foot and will vest in accordance with the original terms of the award. The following awards remain outstanding as at 31 December 2021.

Replacement Recovery Performance Rights Award

The recovery performance rights give the former CEO the right to acquire one fully paid ordinary share in AMP Limited (per right) upon meeting specific performance hurdles, being the achievement of certain share price targets. The share price targets will be tested on 15 February 2022 (First Testing Date) and 15 February 2023 (Second Testing Date) and will vest as follows:

- First Testing Date – 50% of rights granted will vest if the share price is $2.45 (adjusted for any significant capital initiatives); and
- Second Testing Date – if the first share price target of $2.45 is not met at the first testing date, it will be retested and 50% will vest if the $2.45 target is met. The remaining balance may also vest depending on the share price being higher than $2.45 and will vest on a straight-line basis with 100% vesting if the share price is $2.75 (adjusted for any significant capital initiatives).

4.2 SHARE-BASED PAYMENTS *CONTINUED*

Buy-out Incentive Share Rights Award

The Buy-out Incentive share rights give the Former CEO the right to acquire one fully paid ordinary share in AMP Limited (per right) after a specified period. All outstanding awards will vest by 15 February 2022.

Buy-out Incentive Restricted Shares Award

The Buy-out Incentive restricted shares are fully paid ordinary shares in AMP Limited that are held in the AMP Employee Share Trust on behalf of the former CEO until the specified period has been met. All outstanding awards vested during the period.

2019 Short-term Incentive (STI) Award

The former CEO was awarded STI for the performance year 2019. 40% of the STI was awarded in share rights which were granted in 2020 and deferred for two years. The award will vest on 15 February 2022.

The following table shows the movement in the former CEO's outstanding awards during the period:

Grant date	Award Type	Balance at 1 Jan 2021	Exercised during the year	Lapsed during the year	Balance at 31 Dec 2021
12/09/2019	Performance	6,367,402	–	(1,245,334)	5,122,068
21/08/2018	Share right	726,744	(436,046)	–	290,698
13/08/2019	Share right	293,664	(176,198)	–	117,466
01/04/2020	Share rights	264,000	–	–	264,000
13/08/2019	Restricted share	408,164	(408,164)	–	–
Total		**8,059,974**	**(1,020,408)**	**(1,245,334)**	**5,794,232**

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Equity-settled share-based payments

The cost of equity-settled share-based payments is measured using their fair value at the date on which they are granted. The fair value calculation takes into consideration a number of factors, including the likelihood of achieving market-based vesting conditions such as total shareholder return (market conditions).

The cost of equity-settled share-based payments is recognised in the income statement, together with a corresponding increase in the share-based payment reserve (SBP reserve) in equity, over the vesting period of the instrument. At each reporting date, the AMP group reviews its estimates of the number of instruments that are expected to vest and any changes to the cost are recognised in the Income statement and the SBP reserve, over the remaining vesting period.

Where the terms of an equity-settled share-based payment are modified and the expense increases as a result of the modification, the increase is recognised over the remaining vesting period. When a modification reduces the expense, there is no adjustment and the pre-modification cost continues to be recognised.

Where an equity-settled award does not ultimately vest, expenses are not reversed; except for awards where vesting is conditional upon a non-market condition, in which case all expenses are reversed in the period in which the instrument lapses.

Cash-settled share-based payments

Cash settled share-based payments are recognised when the terms of the arrangement provide AMP group with the discretion to settle in cash or by issuing equity instruments and it has a present obligation to settle the arrangement in cash. A present obligation may occur where the past practice has set a precedence for future settlements in cash.

Cash settled share-based payments are recognised, over the vesting period of the award, in the Income statement, together with a corresponding liability. The fair value is measured on initial recognition and re-measured at each reporting date up to and including the settlement date, with any changes in fair value recognised in the Income statement. Similar to equity-settled awards, number of instruments expected to vest are reviewed at each reporting date and any changes are recognised in the Income statement and corresponding liability. The fair value is determined using appropriate valuation techniques.

Notes to the financial statements

for the year ended 31 December 2021

5
SECTION

GROUP ENTITIES

This section explains significant aspects of the AMP group structure, including significant investments in controlled operating entities, and investments in associates. It also provides information on business acquisitions and disposals made during the year.

5.1 CONTROLLED ENTITIES

Significant investments in controlled operating entities are as follows:

Operating entities Name of entity	Country of registration	Share type	% holdings 2021	 2020
AMP Advice Holdings Pty Ltd	Australia	Ord	**100**	100
AMP Bank Limited	Australia	Ord	**100**	100
AMP Capital Funds Management Limited	Australia	Ord	**100**	100
AMP Capital Holdings Limited	Australia	Ord	**100**	100
AMP Capital Investors (New Zealand) Limited	New Zealand	Ord	**100**	100
AMP Capital Investors Limited	Australia	Ord	**100**	100
AMP Capital Office and Industrial Pty Limited	Australia	Ord	**100**	100
AMP Capital Shopping Centres Pty Limited	Australia	Ord	**100**	100
AMP Financial Planning Pty Limited	Australia	Ord	**100**	100
AMP Group Finance Services Limited	Australia	Ord	**100**	100
AMP Group Holdings Limited	Australia	Ord A	**100**	100
AMP Services (NZ) Limited	New Zealand	Ord	**100**	100
AMP Services Limited	Australia	Ord A	**100**	100
AMP Superannuation Limited	Australia	Ord	**100**	100
AMP Wealth Management Holdings Pty Ltd	Australia	Ord	**100**	100
AMP Wealth Management New Zealand Limited	New Zealand	Ord	**100**	100
Hillross Financial Services Limited	Australia	Ord	**100**	100
Ipac Group Services Pty Ltd	Australia	Ord	**100**	100
National Mutual Funds Management (Global) Limited	Australia	Ord	**100**	100
National Mutual Funds Management Ltd	Australia	Ord	**100**	100
N.M. Superannuation Pty Ltd	Australia	Ord	**100**	100
NMMT Limited	Australia	Ord	**100**	100

5.2 INVESTMENTS IN ASSOCIATES

Investments in associates accounted for using the equity method:

Associate	Principal activity	Place of business	Ownership interest 2021 %	Ownership interest 2020 %	Carrying amount[1] 2021 $m	Carrying amount[1] 2020 $m
Resolution Life NOHC[2,3]	Life insurance company	Australia	**19.13%**	19.62%	**–**	514
China Life Pension Company[3]	Pension Company	China	**19.99%**	19.99%	**416**	348
China Life AMP Asset Management Company Ltd	Investment Management	China	**14.97%**	14.97%	**74**	57
Global Infrastructure Fund Sponsor[4]	Fund	Cayman Island	**4.74%**	4.74%	**71**	80
Global Infrastructure Fund II[4]	Fund	Cayman Island	**2.81%**	2.81%	**119**	91
AMP Capital Infrastructure Debt Fund IV USD LP[4]	Fund	Luxembourg	**1.25%**	1.25%	**64**	56
AMP Capital Infrastructure Debt Fund V USD LP[2]	Fund	Luxembourg	**1.80%**	3.08%	**–**	66
ACRT Finance Pty Limited[4]	Investment Management	Australia	**7.72%**	–	**106**	–
PCCP, LLC (Pacific Coast Capital Partners)	Investment Management	United States	**24.90%**	24.90%	**157**	137
Other			**n/a**	n/a	**83**	93
Total investments in associates					**1,090**	1,442

1 The carrying amount is after recognising $150m (2020: $81m) share of current period profit or loss from its associates accounted for using the equity method.
2 Resolution Life NOHC and AMP Capital Infrastructure Debt Fund V USD LP are classified as assets held for sale as at 31 December 2021.
3 The AMP group has significant influence through representation on the entity's board.
4 Entities within the AMP group have been appointed investment manager, therefore the group is considered to have significant influence.

Notes to the financial statements

for the year ended 31 December 2021

5.2 INVESTMENTS IN ASSOCIATES *CONTINUED*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Investments in associates

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in entities over which the AMP group has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. The investment is measured at cost plus post-acquisition changes in the AMP group's share of the associates' net assets, less any impairment in value. The AMP group's share of profit or loss of associates is included in the Consolidated income statement. Any dividend or distribution received from associates is accounted for as a reduction in carrying value of the associate.

Any impairment is recognised in the Consolidated income statement when there is objective evidence a loss has been incurred. It is measured as the amount by which the carrying amount of the investment in entities exceeds the recoverable amount.

5.3 PARENT ENTITY INFORMATION

(a) Statement of comprehensive income – AMP Limited entity

	2021 $m	2020 $m
Dividends interest from controlled entities and net gains or losses on financial assets [1]	**185**	427
Service fee revenue	**14**	12
Share of profit or loss of associates accounted for using the equity method	**52**	33
Operating expenses	**(109)**	10
Impairment of investments in controlled entities	**(450)**	(2,295)
Finance costs	**(37)**	(39)
Income tax credit [2]	**43**	20
Loss for the year	**(302)**	(1,832)
Total comprehensive loss for the year	**(302)**	(1,832)

1 Dividend income from controlled entities $169m (2020: $413m) is not assessable for tax purposes.
2 Income tax credit includes $nil (2020: $nil) utilisation of previously unrecognised tax losses.

5.3 PARENT ENTITY INFORMATION *CONTINUED*

(b) Statement of financial position – AMP Limited entity

	2021 $m	2020 $m
Current assets		
Cash and cash equivalents	**64**	16
Receivables and prepayments[1]	**160**	141
Current tax assets	**201**	153
Loans and advances to subsidiaries	**–**	570
Investments in other financial assets	**63**	–
Non-current assets		
Investments in controlled entities	**5,359**	5,336
Investments in associates	**427**	358
Loans and advances to subsidiaries	**500**	250
Deferred tax assets[2]	**177**	52
Total assets	**6,951**	6,876
Current liabilities		
Payables[1]	**1,129**	395
Current tax liabilities	**66**	70
Provisions	**90**	2
Subordinated debt[3]	**250**	265
Non-current liabilities		
Subordinated debt[3]	**523**	772
Deferred tax liabilities	**–**	10
Total liabilities	**2,058**	1,514
Net assets	**4,893**	5,362
Equity – AMP Limited entity		
Contributed equity	**10,206**	10,402
Share-based payment reserve	**32**	27
Other reserve	**14**	(10)
Retained earnings[4]	**(5,359)**	(5,057)
Total equity	**4,893**	5,362

1 Receivables and payables include tax-related amounts receivable from subsidiaries $155m (2020: $97m) and payable to subsidiaries $614m (2020: $359m).
2 Deferred tax assets include amounts recognised for losses available for offset against future taxable income $nil (2020: $43m).
3 The AMP Limited entity is the issuer of: AMP Wholesale Capital Notes; AMP Capital Notes, AMP Capital Notes 2, AMP Subordinated Notes and AMP Notes 3. Further information on these is provided in note 3.2.
4 Changes in retained earnings comprise $302m loss (2020: $1,832m loss) for the year less dividends paid of $nil (2020: $343m).

(c) Contingent liabilities of the AMP Limited entity

The AMP Limited entity has entered into deeds to provide capital maintenance and liquidity support to AMP Bank Limited. At the reporting date, the likelihood of any outflow in settlement of these obligations is considered remote.

Notes to the financial statements

for the year ended 31 December 2021

5.4 RELATED PARTY DISCLOSURES

(a) Key management personnel

Compensation of key management personnel

	2021 $'000	2020 $'000
Short-term benefits	**10,215**	12,537
Post-employment benefits	**198**	454
Share-based payments	**11,947**	10,767
Other long-term benefits	**217**	728
Termination benefits	**2,777**	3,143
Total	**25,354**	27,629

Compensation of the group's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefit plans (refer to note 4.1). Executive officers also participate in share-based incentive programs (refer to note 4.2). The amounts disclosed in the table are recognised as an expense during the reporting period.

Loans to key management personnel

Loans to key management personnel and their related parties are provided by AMP Bank and are on similar terms and conditions generally available to other employees within the group. No guarantees are given or received in relation to these loans. Loans have been made to five key management personnel and their related parties. Details of these loans are:

	2021 $'000	2020 $'000
Balance as at the beginning of the year	**3,751**	9,212
Net (repayments) advances	**1,474**	(174)
Balance as at the end of the year	**5,225**	9,038
Interest charged	**69**	203

Key management personnel access to AMP's products

From time to time, key management personnel or their related entities may have had access to certain AMP products and services such as investment products, personal banking and financial investment services. These products and services are offered to key management personnel on the same terms and conditions as those entered into by other group employees or customers.

5.4 RELATED PARTY DISCLOSURES *CONTINUED*

(b) Transactions with related parties

Transactions with non-executive directors

Some of the non-executive directors hold directorships or positions in other companies or organisations. AMP may provide or receive services from these companies or organisations negotiated based on arm's length terms. None of the non-executive directors were, or are, involved in any procurement or board decision making regarding the companies or organisations with which they have an association.

Transactions with Resolution Life Australasia

Transactions during the period involve activities in conjunction with the sale of the WP and mature businesses to Resolution Life Australasia. To facilitate the transition of these businesses to new ownership, the group provides operational services under a Transitional Services Agreement (TSA). Fees charged under the TSA are in accordance with negotiated terms equivalent to those that prevail in arm's length transactions.

The group also provides Resolution Life Australasia with investment management and advice-related services in the normal course of business.

Resolution Life Australasia currently has funds on deposit with AMP Bank for which interest expense has been incurred and accrued for by the group.

Transactions with other associates

The group provides investment management and banking services under general service level agreements with other associates as well as support to financial advice practices.

Dividends were received from associates.

Transactions with investment entities

In conjunction with the establishment of new investment funds managed by AMP Capital or other group associates, the group, from time to time, invests seed and sponsor capital. The structure of the fund or the group's level of ownership may result in the fund being treated as an associate of the group. See note 5.2 for details of the group's associates. Management fees are earned by AMP or its associates for managing and administering these investment funds.

All transactions between the group, its associates and the funds are on an arm's length basis.

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Short-term benefits – Liabilities arising in respect of salaries and wages and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts.

Post-employment benefits – Defined contribution funds – The contributions paid and payable by the AMP group to defined contributions funds are recognised in the Consolidated income statement as an operating expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments – Refer to note 4.2.

Other long-term benefits – Other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, discount rates are determined with reference to market yields at the end of the reporting period on high quality corporate bonds or, in countries where there is no deep market in such bonds, by using market yields at the end of the period on government bonds.

Notes to the financial statements

for the year ended 31 December 2021

6
SECTION

OTHER DISCLOSURES

This section includes disclosures other than those covered in the previous sections, required for the AMP group to comply with the accounting standards and pronouncements.

6.1 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of cash flow from operating activities

	2021 $m	2020 $m
Net (loss)/profit after income tax	**(254)**	194
Depreciation of operating assets	**62**	74
Amortisation and impairment of intangibles	**227**	144
Investment (losses)/gains and movements in external unitholders' liabilities	**(187)**	7,846
Dividend and distribution income received/(reinvested)	**121**	(1,223)
Share-based payments	**14**	9
Decrease in receivables, intangibles and other assets	**174**	281
(Decrease)/increase in guarantee liabilities	**(66)**	30
Decrease in net policy liabilities	**–**	(10,506)
Increase/(decrease) in income tax balances	**(18)**	(1,136)
Increase in deposits, other payables and provisions	**1,616**	1,545
Net cash provided by/(used in) operating activities	**1,689**	(2,742)

(b) Reconciliation of cash

	2021 $m	2020 $m
Comprises:		
Cash and cash equivalents	**2,916**	2,428
Cash included in assets held for sale	**21**	–
Short-term bills and notes (included in Debt securities)	**107**	225
Cash and cash equivalents for the purpose of the Statement of cash flows	**3,044**	2,653

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Cash and cash equivalents

Cash and cash equivalents comprise cash-on-hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount. For the purpose of the Consolidated statement of cash flows, Cash and cash equivalents also include other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of outstanding bank overdrafts. Bank overdrafts are shown within Interest-bearing liabilities in the Consolidated statement of financial position.

6.2 COMMITMENTS

(a) Commitments for leases not yet commenced

The future lease payments for which the group is committed but the leases have not yet commenced as at 31 December 2021 are $734m (2020: $735m). Lease commitments do not include non-lease components per AMP's accounting policy based on AASB 16 *Leases*.

(b) Buy-back arrangements

Historically, AMP has had contractual arrangements with financial advice businesses in AMP's aligned advice network to purchase their client registers at agreed multiples to revenue subject to certain conditions being met. These buy-back arrangements included arrangements known as Buyer of Last Resort (BOLR). Advice businesses must register their intention to invoke buy-back arrangements, which have six to 18-month lead times and are subject to audit prior to finalising the purchase price. On 26 July 2021, as part of the new Licensee commercial terms, AMP announced the conclusion of these client register buy-back arrangements, with eligible practices able to register their intention to invoke buy-back arrangements through 31 December 2021. The pipeline of buy-back arrangements where an intention to invoke has been registered by 31 December 2021 is $42m (2020: $89m), all of which relates to arrangements expected to settle in the next 18 months. The commitment value reflects the unaudited value as advised by the advice businesses. AMP's experience is that the ultimate purchase price after audit is typically less than the initially advised value and not all of the buy-back progress to completion. Over the 12 months ended 31 December 2021, $54m was paid for executed buy-back arrangements. Where a notice of intention to invoke the buy-back arrangement has been received by 31 December 2021 and AMP has concluded that the purchase price of the register exceeds the value of the client register to AMP, or where ongoing service arrangements would be unable to be serviced or sold, a provision has been raised for the difference. Refer to note 6.4 for further details.

(c) Investment commitments

At 31 December 2021 AMP Capital Finance Limited, a controlled entity of AMP Limited, had uncalled investment commitments of $452m (2020: $217m) in relation to certain funds managed by AMP Capital. Subsequent to the reporting date, $nil of this committed capital was invested by AMP Capital Finance Limited into AMP Capital managed funds. These investment commitments will only be called when suitable investment opportunities arise, and the exact timeline could not be specified.

(d) AMP Bank credit-related commitments

At 31 December 2021 AMP Bank had credit-related commitments of $3,702m (2020: $3,398m), which include undrawn balances on customer approved limits as well as loan offers pending signing by customers and signed loan contracts pending settlement. The bank expects that not all of the credit-related commitments will be drawn before their contractual expiry.

6.3 RIGHT OF USE ASSETS AND LEASE LIABILITIES

The AMP group adopted AASB 16 *Leases* (AASB 16) from 1 January 2019. Per AASB 16, the group recognises leases on balance sheet as lease liabilities except for short-term leases and leases of low value, with corresponding right of use assets being recognised on balance sheet as well.

(a) Right of use assets

The main type of ROU asset recognised by the group is buildings. The following table details the carrying amount of the ROU assets at 31 December 2021 and the movements during the year.

	2021 $m	2020 $m
Balance at the beginning of the year	**174**	245
Derecognitions during the year	**(20)**	(5)
Impairment expense	**(12)**	(11)
Depreciation expense	**(45)**	(51)
Foreign currency exchange rate changes and other	**2**	(4)
Transferred to assets held for sale	**(3)**	–
Balance at the end of the year	**96**	174

Notes to the financial statements

for the year ended 31 December 2021

6.3 RIGHT OF USE ASSETS AND LEASE LIABILITIES *CONTINUED*

(b) Lease liabilities

The following table details the carrying amount of lease liabilities at 31 December 2021 and the movements during the year.

	2021 $m	2020 $m
Balance at the beginning of the year	**211**	266
Derecognitions during the year	**(26)**	(7)
Interest expense	**7**	10
Payments made	**(56)**	(54)
Foreign currency exchange rate changes and other	**2**	(4)
Transferred to liabilities held for sale	**(3)**	–
Balance at the end of the year	**135**	211

The AMP group paid $4m (2020: $8m) in relation to short-term leases and $nil (2020: $1m) in relation to variable lease payments. The total cash outflow for leases in 2021 was $60m (2020: $63m).

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

At inception, the AMP group assesses whether a contract is or contains a lease. Such assessment involves the application of judgement as to whether:

- the contract involves the use of an identified asset;
- the group obtains substantially all the economic benefits from the asset; and
- the group has the right to direct the use of the asset.

It is AMP's policy to separate non-lease components when recognising the lease liability.

The group recognises a Right of Use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured as the present value of future lease payments, plus initial direct costs and restoration costs of the underlying asset, less any lease incentives received. The ROU asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. The ROU asset is tested for impairment if there is an indicator, and is adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of future lease payments discounted using the group's incremental borrowing rate. Lease payments generally include fixed payments and variable payments that depend on an index, eg CPI. A lease liability is remeasured when there is a change in future lease payments from a change in an index, or if the group's assessment of whether an option will be exercised changes.

Interest expense on lease liabilities is recognised within finance costs in the Consolidated income statement.

The group has elected not to recognise ROU assets and lease liabilities for leases where the lease term is less than or equal to 12 months. Payments for such leases are recognised as an expense on a straight-line basis over the lease term.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The group recognises lease liabilities and corresponding ROU assets for all leases where the group is a lessee, except for short term leases and leases where the underlying asset is of low value. Management applies judgement in identifying and measuring lease liabilities and assessing impairment indicators for ROU assets which includes:

- assessing whether a contract contains a lease;
- determining lease term and incremental borrowing rate;
- separating lease and non-lease components;
- assessing lease modification vis-a-vis new lease;
- assessing the usage of ROU assets and the associated benefits.

6.4 PROVISIONS AND CONTINGENT LIABILITIES

	2021 $m	2020 $m
(a) Provisions		
Client remediation	**87**	579
Buy-back arrangements	**20**	67
Compliance and regulatory[1]	**44**	20
Obligations relating to corporate reorganisation	**138**	253
Other[2]	**299**	137
Total provisions	**588**	1,056

	Client remediation $m	Buy-back arrangements $m	Compliance and regulatory[1] $m	Obligations relating to corporate reorganisation $m	Other[2] $m	Total $m
(b) Movements in provisions						
Balance at the beginning of the year	579	67	20	253	137	1,056
Net provisions made during the year	32	–	27	127	277	463
Provisions used during the year	(524)	(47)	(3)	(101)	(115)	(790)
Transferred to liabilities held for sale	–	–	–	(141)	–	(141)
Balance at the end of the year	**87**	**20**	**44**	**138**	**299**	**588**

1 Includes provisions related to APRA enforceable undertaking.
2 Other provisions include provisions for onerous lease arrangements, deferred payments relating to purchase of client registers, make-good provisions relating to rental premises and other operational provisions. $8m (2020:$16m) is expected to be settled more than 12 months from the reporting date.

Notes to the financial statements

for the year ended 31 December 2021

6.4 PROVISIONS AND CONTINGENT LIABILITIES *CONTINUED*

ACCOUNTING POLICY – RECOGNITION AND MEASUREMENT

Provisions

Provisions are recognised when:

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The group recognises a provision where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome. Provisions are reviewed on a regular basis and adjusted for management's best estimates, however significant judgement is required to estimate likely outcomes and future cash flows.
The judgemental nature of these items means that future amounts settled may be different from those provided for.

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

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

From time to time, the AMP group may incur obligations or suffer financial loss arising from litigation or contracts entered into in the normal course of business, including guarantees issued by the parent for performance obligations of controlled entities in the AMP group. Legal proceedings threatened against AMP may also, if filed, result in AMP incurring obligations or suffering financial loss. A contingent liability exists in relation to actual and likely potential legal proceedings.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to seriously prejudice the position of the AMP group (or its insurers) in a dispute, accounting standards allow the AMP group not to disclose such information.
It is the AMP group's policy that such information is not disclosed in this note.

Industry and regulatory compliance investigations

AMP is subject to review from time to time by regulators, both in Australia and offshore. In Australia, AMP's principal regulators are APRA, ASIC and AUSTRAC, although other government agencies may have jurisdiction depending on the circumstances. The reviews and investigations conducted by regulators may be industry-wide or specific to AMP and the outcomes of those reviews and investigations can vary and may lead to the imposition of penalties, for example, variations or restrictions to licences, the compensation of clients, enforceable undertakings or recommendations and directions for AMP to enhance its control framework, governance and systems.

AMP also performs internal investigations to determine, amongst other things, where clients or other stakeholders, including employees, may have been disadvantaged. In some instances, compensation has been paid and where the results of our reviews have reached the point that compensation is likely and can be reliably estimated then a provision has been raised.

Client remediation

Since 2018 AMP has been actively engaged in a large-scale customer review and remediation program. This program was established to identify and compensate clients who have suffered loss or detriment as a result of either:

- inappropriate advice from their adviser; or
- where clients have been charged an advice service fee without the provision of financial advice services (or insufficient evidence of the provision of financial advice services).

AMP has completed the review of all in scope customers and the majority of remediation payments have been made to date with a remaining $60m provision held at 31 December 2021. Remaining payments are targeted to complete in the first half of 2022.

Provisions for client remediation do not include amounts for potential recoveries from advisers and insurers.

6.4 PROVISIONS AND CONTINGENT LIABILITIES *CONTINUED*

OTHER MATTERS

In addition to the inappropriate advice and advice service fee reviews mentioned above, other reviews, as part of ongoing monitoring and supervision activities, have been performed. These reviews are ongoing and where the reviews have identified instances of clients having suffered loss or detriment, compensation has been paid. As at 31 December 2021, provisions and project costs of $27m have been recognised for the estimated compensation due to clients, including lost earnings for these matters. These provisions are judgemental and the actual compensation to clients could vary from the amounts provided.

Buy-back arrangement

Historically, AMP has had contractual arrangements with financial advice businesses in AMP's aligned advice network to purchase their client registers at agreed multiples to revenue subject to certain conditions being met. These buy-back arrangements included arrangements known as Buyer of Last Resort (BOLR). On 26 July 2021, as part of the new Licensee commercial terms, AMP announced the conclusion of these client register buy-back arrangements, with eligible practices able to register their intention to invoke buy-back arrangements on or before 31 December 2021. Where a notice of intention to invoke the buy-back arrangement has been received and AMP has concluded that the purchase price of the register exceeds the value of the client register to AMP, or where ongoing service arrangements would be unable to be serviced or sold, a provision has been raised for the difference. The provision is judgemental and the actual resulting loss incurred upon settlement of the arrangements may vary from the provision.

Contingent liabilities for future buy-backs, where no notification was received on or before 31 December 2021, no longer remain following the cessation of the buy-back arrangements.

Litigation

SHAREHOLDER CLASS ACTIONS

During May and June 2018, AMP Limited was served with five competing shareholder class actions, one filed in the Supreme Court of NSW and the others filed in the Federal Court of Australia. The actions follow the financial advice hearing block in the Royal Commission in April 2018 and allege breaches by AMP Limited of its continuous disclosure obligations. Each action is on behalf of shareholders who acquired an interest in AMP Limited shares over a specified time period. Subsequently, the four proceedings commenced in the Federal Court of Australia were transferred to the Supreme Court of NSW. The Supreme Court of NSW determined that a consolidated class action (of two of the class actions) should continue, and the other three proceedings were permanently stayed. Following various appeals (including to the High Court of Australia), the consolidated class action continues. AMP Limited has filed its defence to the proceedings. The claims are yet to be quantified and participation has not been determined. Currently it is not possible to determine the ultimate impact of these claims, if any, upon AMP. AMP Limited is defending these actions.

SUPERANNUATION CLASS ACTIONS

During May and June 2019, certain subsidiaries of AMP Limited, namely, N.M. Superannuation Proprietary Limited (NM Super), AMP Superannuation Limited (AMP Super), NMMT Limited and AMP Services Limited (AMP Services), were served with two class actions in the Federal Court of Australia. The first of those class actions relates to the fees charged to members of certain of AMP superannuation funds. The second of those actions relates to the fees charged to members, and interest rates received and fees charged on cash-only fund options. The two proceedings were brought on behalf of certain superannuation clients and their beneficiaries. Subsequently, the Federal Court ordered that the two proceedings be consolidated into one class action. The AMP respondents have filed defences to the proceedings. The claims are yet to be quantified and participation has not been determined. Currently, it is not possible to determine the ultimate impact of these claims, if any, upon AMP. The proceedings are being defended.

FINANCIAL ADVISER CLASS ACTION

In July 2020, a subsidiary of AMP Limited, namely, AMP Financial Planning Pty Limited (AMPFP), was served with a class action in the Federal Court of Australia. The proceeding is brought on behalf of certain financial advisers who are or have been authorised by AMPFP. The claim relates to changes made by AMPFP to its Buyer of Last Resort policy in 2019. The claim is yet to be quantified and participation has not been determined. Currently it is not possible to determine the ultimate impact of this claim, if any, upon AMP. AMPFP has filed its defence to the proceedings, and AMPFP is confident in the actions it took in 2019 and is defending the proceeding accordingly.

COMMISSIONS FOR ADVICE AND INSURANCE ADVICE CLASS ACTION

In July 2020, certain subsidiaries of AMP Limited, namely, AMPFP and Hillross Financial Services Limited (Hillross) were served with a class action in the Federal Court of Australia. The class action related to advice provided by some aligned financial advisers in respect of certain life and other insurance products. Subsequently, in August 2020, AMP Limited, and certain subsidiaries of AMP Limited, namely, AMPFP, Hillross and Charter Financial Planning Limited (Charter), were served with a class action in the Federal Court of Australia. The class action primarily related to the payment of commissions to some aligned financial advisers in respect of certain life insurance and other products and in respect of allegations of charging of fees where advice services were not provided. In December 2020, the Federal Court ordered that these two class actions be consolidated. The AMP respondents have filed a defence to the proceedings. The claim is yet to be quantified and participation has not been determined. Currently, it is not possible to determine the ultimate impact of this claim, if any, upon AMP. The proceedings are being defended.

Notes to the financial statements

for the year ended 31 December 2021

6.4 PROVISIONS AND CONTINGENT LIABILITIES *CONTINUED*

ASIC CIVIL PENALTY PROCEEDINGS IN RESPECT OF DECEASED CUSTOMERS

Certain subsidiaries of AMP Limited, namely, AMPFP, NM Super, AMP Super and AMP Services, are the subject of proceedings brought by ASIC on 26 May 2021. The proceedings allege contraventions of the *Corporations Act 2001* (Cth) (Corporations Act) and the *Australian Securities and Investments Commission Act 2001* (Cth) (ASIC Act) relating to the alleged charging and retention of insurance premiums and advice service fees following the death of members of superannuation funds in the period between 26 May 2015 and 31 August 2019. ASIC's claim is in respect of 2,069 deceased members affected by the retention of premiums, and 27 deceased members affected by the retention of advice fees. AMP has completed remediation for customers identified as being affected by such instances.

ASIC is seeking declarations of contraventions of various sections of the Corporations Act and ASIC Act and orders for the payment of pecuniary penalties and other consequential orders. The AMP respondents have filed a defence to the proceedings. Currently, it is not possible to determine the ultimate impact of this claim upon AMP.

ASIC CIVIL PENALTY PROCEEDINGS IN RESPECT OF PLAN SERVICE FEES

Certain subsidiaries of AMP Limited, namely, AMPFP, Hillross, Charter, AMP Super and AMP Services, are the subject of proceedings brought by ASIC on 29 July 2021. The proceedings allege contraventions of the Corporations Act and the ASIC Act relating to the alleged charging and retention of plan service fees following members of superannuation funds delinking from their corporate super plan into a retail account in the period between 31 July 2015 and 30 June 2019. ASIC's claim is in respect of around 1500 members affected by the retention of plan service fees. AMP has completed remediation for customers identified as being affected by such instances.

ASIC is seeking declarations of contraventions of various sections of the Corporations Act and ASIC Act and orders for the payment of pecuniary penalties and other consequential orders. The AMP respondents have filed a defence to the proceedings. Currently, it is not possible to determine the ultimate impact of this claim upon AMP.

ADDRESSING HISTORICAL MATTERS THROUGH REGULATOR ACTIONS

AMP has been working through a number of historical matters raised at the Royal Commission and elsewhere, and since 2018, has been taking action to strengthen controls, accountability and processes, improve compliance and risk management, and remediate impacted customers.

In 2021, AMP's Superannuation Trustees (AMP Superannuation Limited and N.M. Superannuation Proprietary Limited) entered into an enforceable undertaking (EU) with APRA for historical matters in the Superannuation business. APRA has acknowledged that AMP has addressed and completed remediation for several matters, and at the completion of this EU, AMP envisages that all outstanding matters referred to APRA by the Financial Services Royal Commission will be concluded.

INDEMNITIES AND WARRANTIES TO RESOLUTION LIFE

Under the terms of the sale agreement for the sale of the wealth protection and mature businesses to Resolution Life Australia Pty Ltd (Resolution Life), AMP has given certain covenants, warranties and indemnities in favour of Resolution Life in connection with the transaction. A breach of these covenants or warranties, or the triggering of an indemnity, may result in AMP being liable for some future payments to Resolution Life. Management's best estimate of future payments for these indemnities and warranties has been recognised within these financial statements where they can be reliably estimated. There remain other indemnities and warranties for which no provision has been recognised and a contingent liability exists should such indemnities and warranties be called upon or where actual outcomes differ from management's expectations.

6.5 AUDITORS' REMUNERATION

	2021 $'000	2020 $'000
Audit and review services		
– Group	**1,691**	1,444
– Controlled entities	**3,074**	3,901
Total audit and review services remuneration	**4,765**	5,345
Statutory assurance services	**285**	351
Other assurance services - audit related	**1,154**	1,097
Other assurance services - non-audit related [1]	**1,667**	156
Total assurance services remuneration	**3,106**	1,604
Total audit, review and assurance services remuneration	**7,871**	6,949
Other non-audit services		
Taxation and compliance services [1]	**503**	84
Other services	**1,109**	425
Total other non-audit services remuneration	**1,612**	509
Total auditors' remuneration [2]	**9,483**	7,458

1 Increase in fees in 2021 relates primarily to additional services performed for the Private Markets demerger.
2 Total amount excludes fees paid or payable for Trust and Fund audit/non-audit and/or review services for entities not consolidated into the group. Total fees excluded are $7,872k (2020: $10,520k) of which $383k (2020: $572k) is for non-audit services.

Statutory assurance services relate to AFSL audits and certain APRA reporting assurance required to be performed by the statutory auditor. Other assurance services – audit related primarily relate to other compliance reporting, compliance plan audits, derivative risk statement assurance and internal controls reviews. Other assurance services – non-audit related include IT reviews, operational review and compliance engagements. Other services include transaction support, risk management reviews and benchmarking services.

Notes to the financial statements

for the year ended 31 December 2021

6.6 NEW ACCOUNTING STANDARDS

(a) New and amended accounting standards adopted by the AMP group

A number of new accounting standards amendments have been adopted effective 1 January 2021. These have not had a material effect on the financial position or performance of the AMP group other than as described below.

Interest Rate Benchmark Reform

Transition from Interbank Offered Rates (IBORs), primarily but not exclusively the London Interbank Offered Rate (LIBOR), to Alternative Reference Rates (ARR) has been an area of ongoing industry focus with regulators signalling the need to use alternative benchmark rates. A number of benchmark rates have been discontinued requiring transition to alternate benchmarks across a broad array of financial products, including any IBOR-based securities, loans and other financial products. AMP has successfully completed its IBOR transition activities during the year ended 31 December 2021.

Key activity included:

- transitioning impacted financial contracts utilising International Swaps and Derivative Association fall back protocols and via bilateral re-negotiation,
- monitoring local and international regulatory guidance for the transition from IBORs to Risk Free Rate benchmarks,
- engaging with regulators on the group's transition plans and contributing to industry wide forums, and
- working closely with industry bodies to understand and manage the risks and impacts of transition on our businesses.

The most significant interest rate benchmark to which the group is exposed is the Bank Bill Swap Rate (BBSW). As a result, the IBOR reforms, in conjunction with the practical expedients provided for in the applicable accounting standards, have had an insignificant financial impact on the group. Presently, there are no indications that regulators of jurisdictions in which the group operates intend to discontinue the use of BBSW in the way that the Financial Conduct Authority discontinued the use of LIBOR.

(b) New 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 AMP group in this financial report. These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of the AMP group.

6.7 EVENTS OCCURRING AFTER REPORTING DATE

As at the date of this report, the directors are not aware of any matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect:

- the AMP group's operation in future years;
- the results of those operations in future years; or
- the AMP group's state of affairs in future financial years.