

# **AMP Group Finance Services Limited**

**ABN 95 084 247 914**

**Directors' report and Financial report  
for the year ended  
31 December 2021**

## Directors' report

For the year ended 31 December 2021

Your directors present their report of AMP Group Finance Services Limited ("the Company" or "AMPGFS") for the year ended 31 December 2021.

### Directors

The directors of the Company during the year ended 31 December 2021 and up to the date of this report are shown below. Directors were in office for this entire period unless otherwise stated.

James Georgeson (Chairman)

Jason Bounassif

Nicola Darnell

John O'Farrell

### Principal activities

The principal activities of the Company during the year were to undertake financial risk management and treasury activities for the AMP Limited group (the AMP group). There have been no significant changes in the nature of these activities during the year.

### Review of operations and results

The result for the year ended 31 December 2021 was a net loss after tax of \$0.6m (2020: net loss after tax of \$26.8m).

### Risk

The key risk which may impact the Company's business strategies and prospects for future financial years is that the Company is unable to receive contractual income or the repayment of loans from other entities in the AMP Group. Consequently, the Company's ability to pay interest, and to service and repay its debt obligations may be materially and adversely impaired. The ability of entities in the AMP Group to repay the Company may be limited by various regulatory, contractual, legal, tax and other constraints. However, the Company has financial support arrangements with AMP Group Holdings Limited (AMPGH) whereby AMPGH acts as guarantor for major external debt issues by entities in the AMP Group, including those issued by the Company. Furthermore, AMPGH has entered into a Deed of Financial Support whereby AMPGH will provide financial support to the Company on the terms set out in the Deed to ensure that the Company is able to meet its financial obligations.

### Dividends

No dividends were paid or declared by the Company for the financial year ended 31 December 2021 (2020: \$nil).

### Significant changes in the state of affairs

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

### Events occurring after the reporting date

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

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

### Likely developments

Information about likely developments in the operations of the Company and the expected results of those operations in future years has not been included in this report. Disclosure of this information would likely result in unreasonable prejudice to the Company.

### Environmental regulations

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

## Directors' report

For the year ended 31 December 2021

### Indemnification and insurance of directors and officers

Under its Constitution, the Company indemnifies, to the extent permitted by law, all current and former officers of the Company (including the directors) against any liability (including the reasonable costs and expenses of defending proceedings for an actual or alleged liability) incurred in their capacity as an officer of the Company. This indemnity is not extended to current or former employees of the AMP group against liability incurred in their capacity as an employee, unless approved by the AMP Limited Board.

During, and since the end of the year ended 31 December 2021, AMP Limited (the Company's ultimate parent company) maintained, and paid the premium for directors' and officers' and company reimbursement insurance for the benefit of all of the officers of the AMP group (including each director, secretary and senior manager of the Company) against certain liabilities (including legal costs) as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the liabilities covered, the amount of the premium payable and the limit of liability.

In addition, AMPGH and each of the current and former directors and secretaries of the Company are parties to deeds of indemnity, insurance and access. Those deeds provide that:

- these officers will have access to Board papers and specified records of the Company (and of certain other companies) for their period of office and for at least ten (or, in some cases, seven) years after they cease to hold office (subject to certain conditions);
- AMPGH indemnifies the relevant officers to the extent permitted by law, and to the extent and for the amount that the relevant officer is not otherwise entitled to be, and is not actually, indemnified by another person;
- the indemnity covers liabilities (including legal costs) incurred by the relevant officer in their capacity as a current or former director or secretary of the Company, or of another AMP group company or, an AMP representative of an external company; and
- the AMP group will maintain directors' and officers' insurance cover for those officers, to the extent permitted by law, for the period of their office and for at least ten years after they cease to hold office.

### Indemnification of auditors

To the extent permitted by law, AMP Limited has agreed to indemnify the Company's auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit, other than where the claim is determined to have resulted from any negligent, wrongful or wilful act or omission by or of Ernst & Young. No payment has been made to indemnify Ernst & Young during or since the financial year ended 31 December 2021.

### Rounding

In accordance with the Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191, amounts in this Directors' report and the accompanying Financial Report have been rounded off to the nearest hundred thousand Australian dollars, unless stated otherwise.

### Auditor's independence

We have obtained an independence declaration from our auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' report for the year ended 31 December 2021.

Signed in accordance with a resolution of the directors.



.....

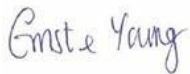
Director

Sydney, 23 March 2022

## Auditor's independence declaration to the directors of AMP Group Finance Services Limited

As lead auditor for the audit of the financial report of AMP Group Finance Services Limited for the financial year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.



Ernst & Young



Clare Sporle  
Partner  
23 March 2022

**AMP Group Finance Services Limited**  
**ABN 95 084 247 914**

**Financial report**  
**for the year ended 31 December 2021**

**Contents**

STATEMENT OF COMPREHENSIVE INCOME.....	1
STATEMENT OF FINANCIAL POSITION.....	2
STATEMENT OF CHANGES IN EQUITY.....	3
STATEMENT OF CASH FLOWS .....	4
1.1 UNDERSTANDING THE AMPGFS FINANCIAL REPORT.....	5
1.2 SIGNIFICANT ACCOUNTING POLICIES.....	6
1.3 CRITICAL JUDGEMENTS AND ESTIMATES .....	8
2.1 NET FINANCE COSTS .....	10
2.2 TAXES .....	11
3.1 RECEIVABLES .....	13
3.2 PAYABLES .....	13
4.1 CONTRIBUTED EQUITY .....	14
4.2 BORROWINGS AND SUBORDINATED DEBT .....	15
4.3 FINANCIAL RISK MANAGEMENT .....	16
4.4 DERIVATIVES AND HEDGE ACCOUNTING .....	20
4.5 CAPITAL MANAGEMENT .....	22
4.6 FAIR VALUE INFORMATION.....	23
5.1 NOTES TO THE STATEMENT OF CASH FLOWS.....	25
5.2 EMPLOYEE DISCLOSURES .....	25
5.3 TRANSACTIONS WITH RELATED PARTIES .....	26
5.4 AUDITOR'S REMUNERATION .....	26
5.5 NEW ACCOUNTING STANDARDS .....	27
5.6 EVENTS OCCURRING AFTER THE REPORTING DATE.....	27
DIRECTORS' DECLARATION .....	28
INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF THE AMP GROUP FINANCE SERVICES LIMITED.....	29

**Statement of comprehensive income**

for the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
Interest income calculated using the effective interest method	2.1	9.7	17.2
Other interest income	2.1	38.8	45.3
Finance costs calculated using the effective interest method	2.1	(26.2)	(34.4)
Other finance costs	2.1	(36.0)	(42.3)
Net finance costs		(13.7)	(14.2)
Foreign exchange (losses)/gains		(1.8)	0.6
Derivative gains/(losses) <sup>1</sup>		47.4	(21.2)
Losses on debt securities measured at fair value through profit or loss		(35.7)	(4.7)
Other income		3.0	2.1
Operating expenses		(0.1)	(0.9)
<b>Loss for the year before income tax</b>		<b>(0.9)</b>	<b>(38.3)</b>
Income tax credit	2.2	0.3	11.5
<b>Loss for the year</b>		<b>(0.6)</b>	<b>(26.8)</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Cash flow hedges			
- net gains/(losses) on cash flow hedges		2.6	(1.3)
- tax effect on cash flow hedges gains/(losses)		(0.8)	0.4
<b>Other comprehensive income/(loss) for the year</b>		<b>1.8</b>	<b>(0.9)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>1.2</b>	<b>(27.7)</b>

<sup>1</sup> Derivative losses include fair value and foreign currency movements on borrowings and subordinated debt in effective hedging relationships.

**Statement of financial position**

for the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
<b>Current assets</b>			
Cash and cash equivalents	5.1	112.7	748.2
Financial assets measured at amortised cost			
- Negotiable certificates of deposit		50.0	264.9
- Promissory notes		-	100.0
- Floating rate notes		-	50.1
- Receivables	3.1	321.6	304.1
Financial assets measured at fair value through profit or loss			
- Investments in unlisted managed investment schemes		0.1	0.1
- Derivative financial assets		23.5	1.4
- Debt Securities		109.3	5.3
Intercompany tax receivable from head entity		0.3	14.8
<b>Total current assets</b>		<b>617.5</b>	<b>1,488.9</b>
<b>Non-current assets</b>			
Financial assets measured at amortised cost			
- Floating rate notes		38.0	166.3
- Receivables	3.1	1,210.3	386.1
Financial assets measured at fair value through profit or loss			
- Debt Securities		432.4	572.4
- Derivative financial assets		34.3	25.1
Deferred tax assets	2.2	0.3	0.6
<b>Total non-current assets</b>		<b>1,715.3</b>	<b>1,150.5</b>
<b>Total assets</b>		<b>2,332.8</b>	<b>2,639.4</b>
<b>Current liabilities</b>			
Financial liabilities measured at amortised cost			
- Payables	3.2	702.9	1,049.3
- Borrowings and subordinated debt	4.2	301.4	401.2
- Collateral deposits held		38.8	23.5
Financial liabilities measured at fair value through profit or loss			
- Derivative financial liabilities		16.5	33.1
<b>Total current liabilities</b>		<b>1,059.6</b>	<b>1,507.1</b>
<b>Non-current liabilities</b>			
Financial liabilities measured at amortised cost			
- Borrowings and subordinated debt	4.2	624.5	906.8
Financial liabilities measured at fair value through profit or loss			
- Derivative financial liabilities		13.1	64.6
<b>Total non-current liabilities</b>		<b>637.6</b>	<b>971.4</b>
<b>Total liabilities</b>		<b>1,697.2</b>	<b>2,478.5</b>
<b>Net assets</b>		<b>635.6</b>	<b>160.9</b>
<b>Equity</b>			
Issued capital	4.1	1,056.0	582.5
Reserves		(0.6)	(2.4)
Accumulated losses		(419.8)	(419.2)
<b>Total equity</b>		<b>635.6</b>	<b>160.9</b>

**Statement of changes in equity**

for the year ended 31 December 2021

	Issued capital \$m	Cash flow hedge reserve \$m	Retained earnings (accumulated losses) \$m	Total shareholder equity \$m
<b>31 December 2021</b>				
Balance at the beginning of the year	582.5	(2.4)	(419.2)	160.9
Loss	-	-	(0.6)	(0.6)
Other comprehensive income	-	1.8	-	1.8
Total comprehensive loss	-	1.8	(0.6)	1.2
Shares issued	4.1	-	-	473.5
<b>Balance at the end of the year</b>	<b>1,056.0</b>	<b>(0.6)</b>	<b>(419.8)</b>	<b>635.6</b>
<b>31 December 2020</b>				
Balance at the beginning of the year	400.0	(1.5)	(392.4)	6.1
Loss	-	-	(26.8)	(26.8)
Other comprehensive income	-	(0.9)	-	(0.9)
Total comprehensive loss	-	(0.9)	(26.8)	(27.7)
Shares issued	182.5	-	-	182.5
<b>Balance at the end of the year</b>	<b>582.5</b>	<b>(2.4)</b>	<b>(419.2)</b>	<b>160.9</b>



**Statement of cash flows**

for the year ended 31 December 2021

	2021 \$m	2020 \$m
<b>Cash flows from operating activities</b>		
Interest and other items of a similar nature received	54.8	69.7
Interest paid and other finance costs	(62.1)	(77.4)
Other items	(2.1)	(3.0)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>	<b>(9.4)</b>	<b>(10.7)</b>
<b>Changes in operating assets and liabilities arising from cashflow movements</b>		
(Increase)/decrease in receivables - related	(895.3)	1,445.9
Decrease in payables - related	(347.4)	(743.6)
Net proceeds/(payment) of collateral deposits	78.4	(54.7)
Net movement in derivative financial assets and liabilities	(2.1)	(5.7)
Net movement in other payables	1.4	0.2
<b>Cash flows (used in)/from operating activities</b>	<b>(1,174.4)</b>	<b>631.4</b>
<b>Cash flows from investing activities</b>		
Net proceeds from sale of/(payments to acquire):		
- negotiable certificate of deposit	215.0	(245.0)
- floating rate notes	178.6	(186.5)
- promissory notes	100.0	(100.0)
- debt securities	0.4	(582.4)
<b>Cash flows from/(used in) investing activities</b>	<b>494.0</b>	<b>(1,113.9)</b>
<b>Cash flows from financing activities</b>		
(Repayments of)/proceeds from borrowings and subordinated debt	(428.6)	263.8
Proceeds from issue of share capital	473.5	182.5
<b>Cash flows from financing activities</b>	<b>44.9</b>	<b>446.3</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(635.5)</b>	<b>(36.2)</b>
Cash and cash equivalents at the beginning of the year	748.2	784.4
<b>Cash and cash equivalents at the end of the year</b>	<b>112.7</b>	<b>748.2</b>

## Notes to the financial statements

for the year ended 31 December 2021

### Section 1: About this report

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

- 1.1 Understanding the AMPGFS financial report
- 1.2 Significant accounting policies
- 1.3 Critical judgements and estimates

## 1.1 Understanding the AMPGFS financial report

AMP Group Finance Services Limited ("the Company" or "AMPGFS") is an unlisted public company limited by shares, incorporated and domiciled in Australia. The Company conducts business in Australia. The parent entity of the Company is AMP Group Services Limited. The ultimate parent entity is AMP Limited.

The Company operated wholly in one segment. The principal activities of the Company are described in the Directors' report.

### The 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;
- has been rounded off to the nearest hundred thousand Australian dollars, unless stated otherwise;
- has been prepared on a going concern basis; and
- presents reclassified comparative information where required for consistency with the current year's presentation.

The financial statements of the Company for the year ended 31 December 2021 were authorised for issue on 23 March 2022 in accordance with a resolution of the directors.

### 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.

### 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 magnitude or nature;
- it is important for understanding the results of the AMPGFS;
- it helps explain the impact of significant changes in the AMPGFS; and/or
- it relates to an aspect of the AMPGFS operations that is important to its future performance.

## Notes to the financial statements

For the year ended 31 December 2021

### Section 1: About this report (continued)

#### 1.2 Significant accounting policies

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

##### Cash and cash equivalents

Cash and cash equivalents comprise cash-on-hand that is available on demand, deposits that are held at call with financial institutions and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are measured at amortised cost which approximates to their fair value.

##### Financial assets

The Company has a portfolio of fixed rate bonds and a portfolio of derivatives which was purchased against these fixed rate bonds, however, the portfolios have not been designated in a hedge relationship. Under applicable accounting standards the derivative portfolio is required to be measured at fair value through profit or loss, which could create an accounting mismatch if the fixed rate bonds were classified as measured at amortised cost. However, an entity may, at initial recognition, irrevocably designate a financial asset or liability that would otherwise have to be measured at amortised cost or fair value through other comprehensive income to be measured at fair value through profit or loss if doing so would eliminate or significantly reduce a measurement or recognition inconsistency. The Company has elected to apply this irrevocable designation to the portfolio of debt securities and has adopted the below accounting policy.

##### *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. Transaction 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 gain or losses arising from subsequent measurement at fair value are recognised in the Statement of comprehensive income in the period in which they arise.

##### *Financial assets measured at fair value through profit or loss – investment in unlisted managed investment schemes*

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

##### *Financial assets measured at amortised cost – debt instruments (including loans and other receivables, negotiable certificate of deposit, promissory notes and floating rate notes).*

Debt instruments 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.

##### Recognition and derecognition of financial assets and financial liabilities

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

## Notes to the financial statements

For the year ended 31 December 2021

### Section 1: About this report (continued)

#### 1.2 Significant accounting policies (continued)

##### **Impairment of assets**

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

An 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 Company 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 collaterals and forward looking macro-economic scenarios.

##### **Derivative financial assets, derivative financial liabilities and hedging**

###### *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 Statement of comprehensive income.

###### *Hedge accounting*

###### *Cash flow hedges*

The effective portion of changes in the fair value of cash flow hedges are recognised (including related tax impacts) through Other comprehensive income and reflected in the Cash flow hedge reserve in equity. The ineffective portion is recognised immediately in profit or loss. The balance of the Cash flow hedge reserve in relation to each particular hedge is transferred to profit or loss 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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

###### *Fair value hedges*

Changes in the fair value of fair value hedges are recognised in profit or loss 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.

###### *Fair value estimation*

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

##### **Foreign currency transactions**

###### *Functional and presentational currency*

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

###### *Transactions and balances*

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

## Notes to the financial statements

For the year ended 31 December 2021

### Section 1: About this report (continued)

#### 1.2 Significant accounting policies (continued)

##### Other finance costs

Other finance costs include exchange differences arising from foreign currency borrowings and changes in the fair value of related derivative hedges and swap coupon payments.

##### Operating expenses

Operating expenses are accrued or paid as incurred.

#### 1.3 Critical judgements and estimates

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

##### Fair value of investments in financial assets and financial liabilities

The Company measures investments in some financial assets and some financial liabilities at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair values of financial instruments is set out in note 4.6.

##### Impairment of financial assets – ECL

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 independencies. Elements of the ECL models that are considered accounting estimates and judgements include:

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

##### Tax

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

##### Going Concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has access to the resources to continue in business for the foreseeable future. In reaching this determination, management has had regard to the Company's ability to pay its debts as and when they fall due.

The Company had a net current asset deficiency of \$442.1m at 31 December 2021 (2020: \$57.7m). The majority of the Company's receivables are due from related parties and are payable on demand. However, for some of these receivables, the Company does not expect to demand payment within the next 12 months. Accordingly, these receivables have been classified as non-current, consistent with accounting standard requirements.

Consistent with the receivables, the majority of the Company's payables are due to related parties and are payable on demand. Although the Company does not expect to be required to settle these obligations in the next 12 months, it does not have the unconditional ability to defer payment beyond 12 months if repayment is demanded.

## **Notes to the financial statements**

For the year ended 31 December 2021

### **Section 1: About this report (continued)**

#### **1.3 Critical judgements and estimates (continued)**

Accordingly, consistent with accounting standard requirements, payables where the Company does not have the unconditional ability to defer payment beyond 12 months, regardless of expectation, are classified as current. This creates prima facie a net current asset deficiency. In the event that the Company requires liquidity to settle upcoming obligations, the intercompany receivables would be called.

In addition to the considerations above, AMP Group Holdings Limited (AMPGH) has entered into arrangements with the Company whereby AMPGH will provide liquidity support, as may be required, (after taking into account all assets, liabilities and cashflow requirements of the Company) to ensure the Company is able to meet its liabilities (including contingent liabilities) at the time they become due and payable.

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 2: Results for the year**

This section provides insights into how the AMPGFS 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 AMPGFS.

- 2.1 Net finance costs
- 2.2 Taxes

**2.1 Net finance costs**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
<b>Interest Income</b>		
Interest income calculated using the effective interest method		
- related	<b>6.8</b>	11.9
- other	<b>2.9</b>	5.3
Other interest income		
- Debt securities interest income	<b>22.1</b>	11.2
- Derivative interest income	<b>16.7</b>	34.1
<b>Total interest income</b>	<b>48.5</b>	62.5
<b>Finance costs on borrowings and subordinated debt</b>		
Finance costs calculated using the effective interest method		
- related	<b>(5.0)</b>	(5.4)
- other	<b>(21.2)</b>	(29.0)
Other finance costs		
- Derivative and other finance costs	<b>(36.0)</b>	(42.3)
<b>Total finance costs</b>	<b>(62.2)</b>	(76.7)

**Accounting policy – recognition and measurement****Interest income and finance cost**

Interest income and finance costs for all financial instruments measured at amortised cost are recognised in the Statement of comprehensive income using the effective interest method.

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

**Derivative financial instruments**

Derivative financial instruments are measured at fair value. The interest component of the fair value is recognised as other interest income/other finance costs.

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 2: Results for the year (continued)****2.2 Taxes**

	2021 \$m	2020 \$m
<b>(a) Relationship between income tax and accounting profit or loss</b>		
Loss for the year before income tax	(0.9)	(38.3)
Prima facie tax credit at 30% (2020: 30%)	0.3	11.5
<b>Income tax credit per Statement of comprehensive income</b>	<b>0.3</b>	<b>11.5</b>
	2021 \$m	2020 \$m
<b>(b) Analysis of deferred tax assets</b>		
Unrealised movements on derivatives and borrowings	0.3	0.6
<b>Total deferred tax assets</b>	<b>0.3</b>	<b>0.6</b>
	2021 \$m	2020 \$m
<b>(c) Amounts recognised directly in equity</b>		
Deferred income tax (expense)/credit related to items taken directly to equity during the current period	(0.8)	0.4

**Accounting policy – recognition and measurement****Tax consolidation**

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

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

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

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

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



## Notes to the financial statements

For the year ended 31 December 2021

### Section 2: Results for the year (continued)

#### 2.2 Taxes (continued)

##### Income tax expense

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

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

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

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

##### Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences 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.

##### Goods and services tax (GST)

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

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

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

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 3: Receivables and payables**

This section highlights AMPGFS receivables and payables which mostly relate to intercompany loans.

- 3.1 Receivables
- 3.2 Payables

**3.1 Receivables**

	2021 \$m	2020 \$m
Intercompany loan receivables	1,501.6	592.0
Receivables-other <sup>1</sup>	30.3	98.2
<b>Total receivables<sup>2</sup></b>	<b>1,531.9</b>	<b>690.2</b>

<sup>1</sup> Includes collateral deposits of \$28.5m (2020: \$91.6m).<sup>2</sup> Receivables are presented net of ECL of \$0.03m (2020: \$0.02m).**Accounting policy – recognition and measurement****Receivables – related**

All loans are financial assets initially recognised at fair value, net of directly attributable incremental transaction costs. After initial recognition, loans are subsequently measured at amortised cost, less any allowance for expected credit losses (ECLs).

For intercompany loans, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

For other receivables measured at amortised cost, the Company has applied the AASB 9's simplified approach and has calculated ECLs based on lifetime expected credit losses.

The majority of receivables are payable on demand, accordingly, the recoverable amount approximates fair value.

**3.2 Payables**

	2021 \$m	2020 \$m
Intercompany loan payables	697.5	1,044.9
Payables- other	5.4	4.4
<b>Total payables</b>	<b>702.9</b>	<b>1,049.3</b>

**Accounting policy – recognition and measurement****Payables**

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

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management**

This section provides information relating to:

- AMPGFS 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 AMPGFS consists of equity and debt. AMPGFS determines the appropriate capital structure in order to finance the current and future activities of AMPGFS. The capital position of the entity is managed as part of the broader AMP Group's enterprise risk management framework.

- 4.1 Contributed equity
- 4.2 Borrowings and subordinated debt
- 4.3 Financial risk management
- 4.4 Derivatives and hedge accounting
- 4.5 Capital management
- 4.6 Fair value information

**4.1 Contributed equity**

	2021 \$m	2020 \$m
<b>Total issued capital</b>		
32 (2020: 22) fully paid ordinary share	1,056.0	582.5
<b>Balance at the end of the year</b>	<b>1,056.0</b>	<b>582.5</b>

	2021 \$m	2020 \$m
<b>Issued capital</b>		
Balance at the beginning of the year	582.5	400.0
10 shares issued on 17 December 2021 (2020:20)	473.5	182.5
<b>Balance at the end of the year</b>	<b>1,056.0</b>	<b>582.5</b>

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

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

**Accounting policy – recognition and measurement****Issued capital**

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

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.2 Borrowings and subordinated debt**

	2021 \$m	2020 \$m
<b>(a) Borrowings and subordinated debt</b>		
6.875% GBP Subordinated Guaranteed Bonds (maturity 2022)	63.2	64.3
USD Medium Term Notes <sup>1</sup>	-	397.9
CHF Medium Term Notes <sup>2</sup>	862.7	845.8
<b>Total borrowings and subordinated debt</b>	<b>925.9</b>	<b>1,307.9</b>

<sup>1</sup> USD 300m 4 per cent Bond principal and interest were paid on 14 September 2021.<sup>2</sup> 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.**(b) Financing arrangements****Loan facilities and note programs**

In addition to the facilities arranged through bond and note issues, financing facilities are provided through bank loans under normal commercial terms and conditions.

**(b) Financing arrangements**

	2021 \$m	2020 \$m
<b>(i) Bilateral facilities</b>		
- Available <sup>1</sup>	450.0	450.0
- Used	-	-
<b>Unused</b>	<b>450.0</b>	<b>450.0</b>
<b>(ii) Funding programs available:</b>		
- Available	14,642.5	14,086.8
- Used <sup>2</sup>	(1,441.1)	(2,535.7)
<b>Unused</b>	<b>13,201.4</b>	<b>11,551.1</b>

<sup>1</sup> Bilateral facilities of \$450m mature on 30 April 2022.<sup>2</sup> Financing is available under funding programs in place for the Company and another company in the AMP group. The amount of the funding programs used by the Company is \$866.1m (2020: \$1,235.7m). The remainder relates to the other company.**(c) Changes in liabilities arising from financing activities**

	<b>Borrowings and subordinated debt</b>	
	2021 \$m	2020 \$m
<b>1 January 2021</b>	<b>1,308.0</b>	<b>1,097.2</b>
Cash flows from issuance (repayment) of commercial paper, medium-term notes and loan facilities	(428.6)	263.8
Foreign exchange (gain)/loss on subordinated debt not in a hedging relationship	4.8	(3.7)
(Gain)/loss on hedged medium term notes	49.7	(50.6)
Other	(8.0)	1.3
<b>31 December 2021</b>	<b>925.9</b>	<b>1,308.0</b>

## Notes to the financial statements

For the year ended 31 December 2021

### Section 4: Capital structure and financial risk management (continued)

#### 4.2 Borrowings and subordinated debt (continued)

##### Accounting policy – recognition and measurement

##### Borrowings and subordinated debt

All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, borrowings and subordinated debt are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest 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 Statement of comprehensive income. In cash flow hedge relationships, the borrowings are not revalued.

#### 4.3 Financial risk management

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

##### (a) Risks and mitigation

Financial risks arising in AMPGFS include market risk (interest rate risk, foreign exchange currency risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the AMP Limited board approved risk appetite statement and individual policies for each risk category. This financial risk management includes the use of derivative financial instruments such as cross-currency and interest rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

##### (b) 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. These movements include foreign exchange rates, interest rates, credit spreads and other financial market variables. Market risk in AMPGFS arises from the management of long-term borrowings and subordinated debt.

Sections (c) and (d) below show how the profit after tax, and equity, would have been impacted by changes in market risk variables including interest rate risk and currency risk as defined in AASB 7 *Financial Instruments: Disclosures*. AMPGFS primarily invests in cash-like assets/short term deposits or debt securities. The interest rate risk sensitivity analysis shows the direct impact on the profit after tax or equity of a reasonably possible change in factors which affect the carrying value of financial assets and financial liabilities held at the end of the reporting period.

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

##### (c) Interest rate risk

The analysis below includes financial instruments measured at fair value through profit or loss as well as those measured at amortised cost. Interest rate risk is the risk of an impact on AMPGFS'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, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates.

Interest rate risk arises primarily in relation to long-term borrowings, subordinated debt and senior medium-term notes raised through a combination of Australian dollar, Pound sterling and Swiss franc denominated fixed-rate and floating-rate facilities. Interest rate risk is managed by entering floating-to-fixed interest rate swaps, which have the effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, AMPGFS agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.3 Financial risk management (continued)***Interest rate risk sensitivity analysis*

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

	2021	2021	2020	2020
	Impact on profit and loss after tax	Impact on equity	Impact on profit and loss after tax	Impact on equity
	Increase (decrease)	Increase (decrease)	Increase (decrease)	Increase (decrease)
Change in variables	\$m	\$m	\$m	\$m
-100 basis points	1.3	1.3	1.1	1.1
+100 basis points	(1.3)	(1.3)	(1.1)	(1.1)

**(d) Currency risk**

AMPGFS issues subordinated debt in pound sterling and senior medium-term notes in Swiss franc. The company manages its risk by entering into cross currency swaps. There is no other material exposure to currency risk.

**(e) Liquidity and refinancing risk**

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

To ensure that AMPGFS has sufficient funds available, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, Group Treasury maintains a defined surplus of cash 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.

Furthermore, AMPGH has entered into a Deed of Financial Support whereby AMPGH will provide financial support to the Company on the terms set out in the Deed to ensure that the Company is able to meet its financial obligations.

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.3 Financial risk management (continued)****(e) Liquidity and refinancing risk (continued)**

The following table summarises the maturity profiles of AMPGFS undiscounted financial liabilities at the reporting date. The maturity profiles for payables, collateral deposits held, borrowings (senior medium-term notes) and subordinated debt are based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

<b>31 December 2021</b>	<b>Up to 1 Year or no term</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Financial liabilities</b>				
Payables	702.9	-	-	702.9
Collateral deposits held	38.8	-	-	38.8
Borrowings	246.2	627.5	-	873.7
Subordinated debt	64.4	-	-	64.4
Derivative financial instruments				
Cross currency swaps	8.6	6.6	-	15.2
Interest rate swaps	8.1	26.1	4.0	38.2
<b>Total undiscounted financial liabilities<sup>1</sup></b>	<b>1,069.0</b>	<b>660.2</b>	<b>4.0</b>	<b>1,733.2</b>

<b>31 December 2020</b>	<b>Up to 1 Year or no term</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Financial liabilities</b>				
Payables	1,049.3	-	-	1,049.3
Collateral deposits held	23.5	-	-	23.5
Borrowings	412.5	853.6	-	1,266.1
Subordinated debt	4.3	66.4	-	70.7
Derivative financial instruments				-
Cross currency swaps	12.6	17.8	-	30.4
Interest rate swaps	-	-	-	-
<b>Total undiscounted financial liabilities<sup>1</sup></b>	<b>1,502.2</b>	<b>937.8</b>	<b>-</b>	<b>2,440.0</b>

<sup>1</sup> The balances in the above table will not agree directly to the balances in the Statement of financial position as this table incorporates all cash flows on an undiscounted basis, related to both principal and future interest payments.

**(f) Credit risk**

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

The AMP Concentration 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 external counterparty's credit rating (unless special considerations are defined). Compliance with this policy is monitored and exposures and breaches are reported to senior management through periodic financial risk management reports. Concentration risk from related party counterparties is monitored on an ongoing basis to ensure the Company's exposures are within its risk appetite.

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

## Notes to the financial statements

For the year ended 31 December 2021

### Section 4: Capital structure and financial risk management (continued)

#### 4.3 Financial risk management (continued)

##### *(i) Management of credit risk concentration*

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

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

In relation to financial assets, other than amounts receivable from related parties in the AMP Group, counterparties to non-exchange traded contracts are limited to companies with investment grade credit (BBB- or greater) at the time of entering those contracts. The credit risks associated with these counterparties are assessed under the same management policies as applied to direct investments in AMP group's portfolio.

Amounts receivable from related parties in the AMP group are managed as part of the broader AMP Group Enterprise Risk Management Framework.

##### *(ii) Exposure to credit risk*

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

##### **(g) Derivative financial instruments**

Derivative financial instruments are measured at fair value in the Statement of financial position as assets and liabilities. Asset and liability values on individual transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in values of derivative financial instruments are recognised in the Statement of comprehensive income, except those that qualify as effective cash flow hedges.

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

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

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

##### *Collateral*

AMPGFS has collateral arrangements in place with some counterparties in addition to collateral deposits held with respect to derivative contracts. Collateral generally consists of cash 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 \$38.8m of collateral deposits due to other financial institutions (2020: \$23.5m) and \$28.5m of collateral pledged due from other financial institutions (2020: \$91.6m)



**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.3 Financial risk management (continued)***Master netting or similar agreements*

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

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

As at 31 December 2021, if these netting arrangements were applied to the derivative portfolio, the derivative assets of \$57.8m would be reduced by \$13.4m to the net amount of \$44.4m and derivative liabilities of \$29.6m would be reduced by \$13.4m to the net amount of \$16.2m (31 December 2020: derivative assets of \$26.5m would be reduced by \$7.6m to the net amount of \$18.9m and derivative liabilities of \$97.7m would be reduced by \$7.6m to the net amount of \$90.1m).

**4.4 Derivatives and hedge accounting**

The Company is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the Company uses derivative financial instruments such as cross-currency interest rate swaps. When the Company 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; or
- Fair value 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 Company's risk management strategy and how it is applied to manage risk is explained further in note 4.3.

**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:

		<b>Notional amount</b>	<b>Fair value Assets</b>	<b>Fair value Liabilities</b>
<b>2021</b>		<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Hedge type</b>	<b>Hedging instrument</b>			
Fair value and cash flow	Cross-currency interest rate swaps	<b>828.2</b>	<b>36.0</b>	-
<b>Total</b>		<b>828.2</b>	<b>36.0</b>	-

		<b>Notional amount</b>	<b>Fair value Assets</b>	<b>Fair value Liabilities</b>
<b>2020</b>		<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Hedge type</b>	<b>Hedging instrument</b>			
Fair value and cash flow	Cross-currency interest rate swaps	1,254.0	-	20.4
<b>Total</b>		1,254.0	-	20.4

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.4 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 Company 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.

2021	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m
Medium Term Notes	-	787.7	-	34.0

2020	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m
Medium Term Notes	-	1,171.7	15.6	-

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

	2021	2020
Gain/(loss) on hedging instrument	54.3	(56.6)
(Loss)/gain on hedged items attributable to the hedged risk	(49.7)	50.6
<b>Hedge ineffectiveness recognised in the Statement of comprehensive income</b>	<b>4.6</b>	<b>(6.0)</b>

*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.

*Derivative instruments accounted for as cash flow hedges*

The Company is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at fixed and variable rates. The Company 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 Company recognised \$nil (2020: \$nil) due to ineffectiveness on derivative instruments designated as cash flow hedges.

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.4 Derivatives and hedge accounting (continued)**

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

	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
<b>2021</b>					
Cross-currency interest rate swaps	-	218.0	610.2	-	828.2
	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
<b>2020</b>					
Cross-currency interest rate swaps	-	426.0	828.0	-	1,254.0

**4.5 Capital management**

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

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

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

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

AMPGH has entered into a Deed of Financial Support whereby AMPGH will provide financial support to the Company on the terms set out in the Deed to ensure that the Company is able to meet its financial obligations.

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

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.6 Fair value information**

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

	Carrying amount \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
<b>31 December 2021</b>					
<b>Financial assets measured at fair value</b>					
<i>Financial assets measured at fair value through profit and loss</i>					
Investment in unlisted managed investment schemes	0.1	-	0.1	-	0.1
Debt Securities	541.7	-	541.7	-	541.7
Derivative financial assets	57.8	-	57.8	-	57.8
<b>Total financial assets measured at fair value</b>	<b>599.6</b>	<b>-</b>	<b>599.6</b>	<b>-</b>	<b>599.6</b>
<b>Financial assets not measured at fair value</b>					
<i>Financial assets measured at amortised cost</i>					
Negotiable certificates of deposit	50.0	-	50.0	-	50.0
Floating rate notes	38.0	-	38.2	-	38.2
Promissory notes	-	-	-	-	-
Receivables	1,531.9	-	1,531.9	-	1,531.9
<b>Total financial assets not measured at fair value</b>	<b>1,619.9</b>	<b>-</b>	<b>1,620.1</b>	<b>-</b>	<b>1,620.1</b>
<b>Financial liabilities measured at fair value</b>					
<i>Financial liabilities measured at fair value through profit and loss</i>					
Derivative financial liabilities	29.6	-	29.6	-	29.6
<b>Total financial liabilities measured at fair value</b>	<b>29.6</b>	<b>-</b>	<b>29.6</b>	<b>-</b>	<b>29.6</b>
<b>Financial liabilities not measured at fair value</b>					
<i>Financial liabilities measured at amortised cost</i>					
Borrowings and subordinated debt	925.9	-	939.2	-	939.2
Collateral deposits held	38.8	-	38.8	-	38.8
Payables	702.9	-	702.9	-	702.9
<b>Total financial liabilities not measured at fair value</b>	<b>1,667.6</b>	<b>-</b>	<b>1,680.9</b>	<b>-</b>	<b>1,680.9</b>
<b>31 December 2020</b>					
<b>Financial assets measured at fair value</b>					
<i>Financial assets measured at fair value through profit and loss</i>					
Investment in unlisted managed investment schemes	0.1	-	0.1	-	0.1
Debt Securities	577.7	-	577.7	-	577.7
Derivative financial assets	26.5	-	26.5	-	26.5
<b>Total financial assets measured at fair value</b>	<b>604.3</b>	<b>-</b>	<b>604.3</b>	<b>-</b>	<b>604.3</b>
<b>Financial assets not measured at fair value</b>					
<i>Financial assets measured at amortised cost</i>					
Negotiable certificates of deposit	264.9	-	265.0	-	265.0
Floating rate notes	216.4	-	218.1	-	218.1
Promissory notes	100.0	-	100.0	-	100.0
Receivables	690.2	-	690.2	-	690.2
<b>Total financial assets not measured at fair value</b>	<b>1,271.5</b>	<b>-</b>	<b>1,273.3</b>	<b>-</b>	<b>1,273.3</b>
<b>Financial liabilities measured at fair value</b>					
<i>Financial liabilities measured at fair value through profit and loss</i>					
Derivative financial liabilities	97.7	-	97.7	-	97.7
<b>Total financial liabilities measured at fair value</b>	<b>97.7</b>	<b>-</b>	<b>97.7</b>	<b>-</b>	<b>97.7</b>
<b>Financial liabilities not measured at fair value</b>					
<i>Financial liabilities measured at amortised cost</i>					
Borrowings and subordinated debt	1,308.0	-	1,326.2	-	1,326.2
Collateral deposits held	23.5	-	23.5	-	23.5
Payables	1,049.3	-	1,049.3	-	1,049.3
<b>Total financial liabilities not measured at fair value</b>	<b>2,380.8</b>	<b>-</b>	<b>2,399.0</b>	<b>-</b>	<b>2,399.0</b>

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 4: Capital structure and financial risk management (continued)****4.6 Fair value information (continued)**

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

<i>Negotiable certificates of deposit (NCD), Floating rate notes and Promissory notes</i>	The fair value of NCDs, floating rate notes and promissory notes represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the respective NCDs, floating rate notes and promissory notes. The fair value is the par value plus any accrued interest.
<i>Receivables and payables</i>	Receivables/payables primarily represents loans to/from entities within the AMP Limited Group. For balances receivable/payable on demand, the fair value is the outstanding balance. For balances not receivable/payable on demand, fair value is estimated with reference to a discounted cash flow model using discount rates appropriate for the respective counterparties and the terms to maturity.
<i>Investments in unlisted managed investment schemes</i>	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.
<i>Derivative financial assets and liabilities</i>	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 (e.g. over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, forward pricing, swap 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 derivative contracts are significantly cash collateralised, thereby minimising both counterparty risk and the Company's own non-performance risk.
<i>Borrowings and subordinated debt</i>	Borrowings comprise commercial paper, drawn liquidity facilities, various floating-rate and medium-term notes, and subordinated debt. The estimated fair value of borrowings and subordinated debt is determined with reference to quoted market prices at the reporting date. For borrowings and subordinated debt 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 and subordinated debt, the par value is considered a reasonable approximation of the fair value.
<i>Debt Securities</i>	Debt securities comprise a portfolio of government and semi-government bonds. 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 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);
- 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 Company 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.

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 5: Other disclosures**

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

- 5.1 Notes to the Statement of cash flows
- 5.2 Employee disclosures
- 5.3 Transactions with related parties
- 5.4 Auditor's remuneration
- 5.5 New accounting standards
- 5.6 Events occurring after the reporting date

**5.1 Notes to the Statement of cash flows**

	2021 \$m	2020 \$m
<b>(a) Reconciliation of cash and cash equivalents</b>		
Cash balance comprises:		
- Cash at bank	45.4	22.0
- Short term deposits	67.3	726.2
<b>Balance at end of the year</b>	<b>112.7</b>	<b>748.2</b>

**5.2 Employee disclosures****a) Key management personnel details**

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

James Georgeson (Chairman)  
 Jason Bounassif  
 Nicola Darnell  
 John O'Farrell

**b) Transactions with key management personnel**

The Company has no direct employees.

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

**Notes to the financial statements**

For the year ended 31 December 2021

**Section 5: Other disclosures (continued)****5.3 Transactions with related parties**

The Company has transactions with related parties including controlled entities and associated entities. Most of those related party activities are provision of inter-company loans to companies within the AMP group. Other related party transactions are in respect of administrative services provided by fellow controlled entities in the AMP group.

**(a) Investments and balances with related parties**

	2021	2020	2021	2020
	Amounts owed by related parties		Amounts owed to related parties	
Related parties of AMPGFS	\$'000	\$'000	\$'000	\$'000
AMP Limited	171,479	-	138	569,591
AMP Group Holdings Limited	-	-	368,781	88,754
AMP Finance Services Limited	-	2,199	7,378	5,904
AMP Services Limited	1,038,820	203,693	-	149,684
AMP Wealth Management Holdings Pty Limited	-	-	211,866	187,210
AMP Advice Holdings Pty Limited	44	13,829	41,305	13,712
National Mutual Funds Management (Global) Limited	-	-	-	30,000
AMP Capital Finance Limited	290,207	372,259	-	-
NMFM Limited	-	-	67,987	-
AMP Bank Limited	1,114	-	-	-
AMP New Zealand Holdings Limited	-	49	-	-
<b>Total</b>	<b>1,501,664</b>	<b>592,029</b>	<b>697,455</b>	<b>1,044,855</b>

**(b) Incomes and expenses transactions with related parties**

	2021	2020	2021	2020	2021	2020	2021	2020
	Interest income from related parties		Other income from related parties		Distributions and net gains or losses on unlisted managed investment schemes		Interest expense to related parties	
Related parties of AMPGFS	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
AMP Limited	-	-	-	-	-	-	4,994	5,362
AMP Wealth Management Holdings Pty Ltd	-	217	-	-	-	-	-	-
AMP Advice Holdings Pty Limited	154	3,082	-	-	-	-	-	-
AMP Capital Finance Limited	6,636	8,534	2,250	1,954	-	-	-	-
NMFM Limited	-	-	-	-	-	-	126	-
AMP Bank Limited	-	-	1,170	-	-	-	-	-
AMP New Zealand Holdings Limited	-	49	-	-	-	-	-	-
<b>Total</b>	<b>6,790</b>	<b>11,882</b>	<b>3,420</b>	<b>1,954</b>	<b>-</b>	<b>-</b>	<b>5,120</b>	<b>5,362</b>

**5.4 Auditor's remuneration**

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

## Notes to the financial statements

For the year ended 31 December 2021

### Section 5: Other disclosures (continued)

#### 5.5 New accounting standards

##### *New and amended accounting standards*

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 Company 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. The Company 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.

##### *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 Company in this financial report. These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of the Company.

#### 5.6 Events occurring after the reporting date

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



## Directors' declaration

For the year ended 31 December 2021

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

- (a) in the opinion of the directors there are reasonable grounds to believe that AMP Group Finance Services Limited will be able to pay its debts as and when they become due and payable;
- (b) in the opinion of the directors the financial statements and the notes of AMP Group Finance Services Limited for the financial year ended 31 December 2021 are in accordance with the *Corporations Act 2001*, including section 296 (compliance with accounting standards) and section 297 (true and fair view); and
- (c) the notes to the financial statements of AMP Group Finance Services Limited for the financial year ended 31 December 2021 include an explicit and unreserved statement of compliance with International Financial Reporting Standards as issued by International Accounting Standards Board.



.....  
Director

Sydney, 23 March 2022

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

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of AMP Group Finance Services Limited (the Company), which comprises the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the Company's financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key audit matters

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

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

### Company's net current liability position as at 31 December 2021

#### Why significant

As the Company was in a net current liability position at 31 December 2021, to the value of \$442.1 million, consideration of the Director's assessment as to the Company's ability to continue as a going concern was a key audit matter.

Refer to the Note 1.3 for disclosures relating to the Company's net current liability position at 31 December 2021 and the Director's going concern assessment.

#### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Read and considered the Financial Support Deed between AMP Group Holdings Limited and the Company;
- ▶ Assessed the ability of AMP Group Holdings Limited to provide financial support to the Company in order to meet its liabilities (including contingent liabilities) for 12 months from the date of the financial statements; and
- ▶ Assessed the adequacy of the disclosure included in the financial report.

### Hedge Accounting

#### Why significant

To manage risks such as interest rate risk and foreign currency risk, to which the Company is exposed through its ongoing business operations, the Company uses derivative financial instruments. Some of these derivatives are designated to be a part of a hedge relationship and hedge accounting is applied.

As there is inherent complexity related to accounting for hedge relationships and determining their effectiveness, hedge accounting was considered to be a key audit matter.

Refer to Note 4.4 for disclosures relating to the derivatives and hedge accounting.

#### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered whether the Company's hedge accounting documentation was compliant with the requirements of Australian Accounting Standards;
- ▶ Assessed the Company's conclusion as to the effectiveness of established hedge accounting relationships; and
- ▶ Assessed the adequacy of the disclosures included in the financial report.

## **Information other than the financial report and auditor's report thereon**

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

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

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

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

## **Responsibilities of the directors for the financial report**

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

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

## **Auditor's responsibilities for the audit of the financial report**

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

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

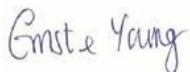
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



Ernst & Young



Clare Sporle  
Partner  
23 March 2022

**Statement in relation to the Directors' report and Financial statements for the year ended  
31 December 2021**

As Directors of **AMP Group Finance Services Limited** ("the issuer"), for the purposes of Article 4(2)(c) of Directive 2004/109/EC of the European Parliament and of the Council, we refer to the Directors' report, Financial statements and Directors' declaration of AMP Group Finance Services Limited, signed on 23 March 2022, and further state that to the best of our knowledge:

- a) the Financial statements for the year ended 31 December 2021 prepared in accordance with Australian accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole, and that the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole; and
- b) the Supplementary Note below provides a description of the principal risks and uncertainties the issuer and the undertakings included in the consolidation, taken as a whole, face.



-----  
Director

Name: James Georgeson



-----  
Director

Name: Nicki Darnell

Sydney, 23 March 2022

**Supplementary Note accompanying the Statement in relation to the Directors' report and  
Financial statements for the year ended 31 December 2021**

**Principal risks and uncertainties**

The principal risks and uncertainties of the issuer and the undertakings included in the consolidation taken as whole for the financial year are set out in Appendix 1.

## – PRINCIPAL RISKS AND UNCERTAINTIES

### Introduction to the risks associated with the AMP group's businesses

This document relates to certain Notes issued by AMP Group Finance Services Limited (ABN 88 079 804 676) (**AMPGFS**) and guaranteed by AMP Group Holdings Limited (ABN 95 084 247 914) (**AMPGH**) that are listed on the Luxembourg Stock Exchange and subject to the rules under the European Union Transparency Directive (**Notes**).

AMPGFS is a finance company within the AMP group (the **AMP Group** being AMP Limited (ABN 49 079 354 519) and its direct and indirectly held subsidiaries). AMPGH is a holding company for all businesses within the AMP Group other than the banking business of AMP Bank Limited (**AMP Bank**). Each of AMPGFS and AMPGH is a subsidiary of AMP Limited (**AMP**), an Australian corporation listed on the Australian Securities Exchange (**ASX**), which is the ultimate holding company for the AMP group.

As a finance company and holding company respectively within the AMP Group, the financial performance and position of AMPGFS and AMPGH is dependent on the financial performance and position of the other members of the AMP Group. Each of the risks and uncertainties described below may have a material adverse impact on the financial performance and position of the AMP Group, its ability to provide support to particular members of that group and the ability of AMPGFS and/or AMPGH to perform their obligations in respect of the Notes, including the payment of interest and principal.

### Strategic risk

#### Strategic risk

"Strategic risk" is the risk associated with the competitive positioning of the business, and the AMP Group's ability to respond in a timely manner to changes in its competitive landscape and protect the value of the AMP brand. Examples of strategic risks include competitor disruption, customer and business partner retention, changing customer preferences, and changing political and regulatory environments. The AMP Board sets the overall strategic direction of AMP as part of the strategic planning process, and execution risks are explicitly considered. The AMP board also sets the risk appetite and is accountable for our risk culture to help ensure strategic decisions and actions are appropriately governed, controlled and executed.

If there are changes in the business, economic, legislative or regulatory environment, or if customer behaviour changes, this may affect the effectiveness of the strategy. These could lead to AMP not meeting market expectations regarding growth and profit, which may have an impact on AMP's financial position, performance and capital. The AMP Board regularly monitors the external and internal environment, and considers impacts and actions relating to the strategy accordingly.

#### AMP Capital Demerger

AMP has announced its intention to demerge AMP Capital Private Markets business to be known as Collimate Capital comprising infrastructure equity and real estate (**Collimate Capital**) in the first half of 2022 (**Demerger**). In order to facilitate the separation of Collimate Capital, AMP will retain the AMP Capital multi asset group (**MAG**) which is in the process of being transferred to AMP's Australia Wealth Management division, and it has entered into a binding agreement with Macquarie Asset Management (**Macquarie**) to sell the AMP Capital Global Equity and Fixed Income (**GEFI**) business to Macquarie. AMP Capital's infrastructure debt platform has been sold to Ares Management Corporation (**Ares**).

AMP's decision to proceed with, and its ability to execute, the Demerger are subject to obtaining Board, regulatory, court and shareholder approvals and market conditions. If AMP proceeds with the Demerger, it will incur costs associated with the transaction. If AMP decides not to, or is unable to, proceed with the Demerger it will still incur costs it is unable to recover, including transaction and one-off separation costs, and the expected advantages of the Demerger will not be realised.

If the Demerger does proceed, it will decrease the size of AMP Group's operations. This will in turn have an impact on AMP's revenues and potentially its profitability and returns to investors. The separation of Collimate Capital and the execution of the Demerger may create disruption and uncertainty for AMP and its customers, aligned advisers, employees, suppliers and other

counterparties, and may have a significant impact on AMP's financial position, performance and capital.

#### Brand and reputation

The AMP brand is highly recognised in Australia and New Zealand. Although difficult to measure, a diminution in corporate reputation can contribute to lower new business sales, reduced inflows of investment funds, greater outflows and, ultimately, reduced financial performance and position as was experienced by AMP Group in the aftermath of the Royal Commission and other events which have negatively impacted on the AMP brand in recent years.

In addition, the AMP Group has agreed to license the AMP brand to a number of third parties in connection with various business disposals. While AMP Group has entered into transitional brand licensing arrangements with each of these counterparties to regulate their use of the AMP brand, AMP's business and reputation may be adversely affected by negative publicity, business decisions or poor financial performance of entities using, or otherwise associated with, the AMP name, even if they are unrelated to the AMP Group.

#### Organisational Change

In 2021, AMP concluded its Portfolio Review which has resulted in the proposed demerger of its private markets business of Infrastructure and Real Estate, the sale of the Infrastructure Debt platform to Ares, the sale of the GEFI business to Macquarie and the transfer of MAG to AMP's Australia Wealth Management division. This coincided with additional changes to simplify the internal operating model. There is a risk that business momentum is lost due to conflicting leader focus on organisational changes. The increase in volume of change may have an adverse impact on employees as they deliver on our strategy and transformation initiatives. These risks will be mitigated by continuously improving leadership and performance focus of the business.

AMP continues to invest in adopting new ways of working to drive efficiency and improve our practices to increase accountability and build on core strengths. We recognise that failure to execute appropriately on the implementation of these changes can increase the risks of disruption to AMP's business operations.

Given the current level of organisational change occurring within AMP, as well as the significant economic changes post COVID-19, there may be increased instances of staff turnover and AMP's ability to retain key staff may be challenged. A heightened level of staff departures may have a significant impact on AMP's strategy, financial position, performance and capital.

#### Inability of the business to adapt to competitor-driven change

The financial services industry in which the AMP Group operates is becoming increasingly competitive. Factors contributing to this include the entry of new participants, advances in technology, the development of new business models and alternative distribution methods and broader, better integrated product offerings by major competitors. Responses to increased competition may include product development, lower prices, increased marketing and retention activity, more aggressive risk taking (such as higher benefit levels in risk products) or a combination of these, which may have a material adverse impact on the financial performance and position of the AMP Group.

#### Inability of the business model to adjust to changing customer preferences

Customer expectations are evolving which is intensifying competition within wealth management. In addition, COVID-19 is leading to increased market volatility, affecting the performance of its assets under management across the industry. If the AMP Group fails to adapt its capabilities and operating model this could have a material adverse impact on the financial performance and position of the AMP Group.

#### Corporate transactions and strategic alliances

The AMP Group at times evaluates and may undertake a range of corporate transactions, including acquisitions, divestments, mergers, joint ventures and strategic alliances. These transactions can be complex and costly and may require AMP to comply with additional local or foreign regulatory requirements which may carry additional risks. These decisions may, for a variety of reasons, not deliver the anticipated positive business results impacting AMP's business, prospects and



engagement with regulators. This could have a material adverse impact on the financial performance or position of the AMP Group.

In particular, AMP holds a non-controlling stake in its China Life Pension Company partnership with China Life Insurance Company Limited, as well as other minority investments in financial and advice practice equity entities. AMP Group also currently holds a 19.13% equity interest in Resolution Life Australasia (**RLA**) which it acquired as part of the sale in July 2020 of its wealth protection and mature business, AMP Life, to Resolution Life Australia Pty Ltd (a wholly owned subsidiary of Resolution Life Group Holdings LP) (**Resolution Life**). The AMP Group has entered into a binding agreement with Resolution Life to sell its equity interest in RLA.

AMP may also enter into other strategic partnerships in the future. There is a risk that co-investors or strategic partners may at any time have economic, business or legal interests or goals that are inconsistent with those of AMP Group, be unable to meet their funding obligations, or be in a position to take (or block) actions in a manner contrary to AMP Group's investment objectives.

In connection with its various corporate transactions, AMP Group may provide, or receive, operational services under transitional service arrangements. If the services being provided by, or to, AMP under such arrangements are not delivered or are delayed, there is a risk that the relevant divestment or acquisition may take longer and incur more costs which could have an adverse impact on AMP's businesses.

Failure by AMP to adequately manage the risks associated with strategic alliances and various corporate transactions could have a material adverse effect on the financial condition or results of operations of such investments and, in turn, the financial position and performance of the AMP Group.

Further, where AMP Group's strategic investments are held in foreign jurisdictions, they may be exposed to heightened levels of scrutiny, social, political or economic description, and sovereign risk.

#### Contingent liability for disposed businesses

From time to time, the AMP Group may provide for warranties and indemnification for specified periods in relation to the disposal of businesses and portfolios to third parties. While the AMP Group has no knowledge that it has any liability under these arrangements which is not appropriately provided for, a liability may arise in future. This may have a material adverse impact on the financial performance and position of the AMP Group.

In addition, new and emerging risks pertain to AMP's adherence to the various contractual agreements relating to its various divestments, including to provide services to the respective counterparties through various transition service arrangements, which allows the relevant counterparties to claim under certain conditions.

#### Investment management mandate loss

There is a risk to AMP Capital that its key clients may withdraw some or all of their assets under management. Changes to the size or terms of these client accounts may impact the financial performance and position of AMP Capital or the AMP Group.

### **Legislative, regulatory and capital risks**

#### Failure to comply with laws or regulation

AMP, as a financial services organisation, is subject to various legislative, regulatory and prudential requirements. In particular, AMP is subject to oversight by a number of regulators including, among others, the Australian Prudential Regulation Authority (**APRA**), the Reserve Bank of Australia, the Australian Securities and Investments Commission (**ASIC**), ASX, the Australian Taxation Office (**ATO**), the Australian Competition and Consumer Commission (**ACCC**), the Australian Transaction Reports and Analysis Centre (**AUSTRAC**), the Office of the Australian Information Commissioner, the New Zealand Privacy Commissioner's Office and the New Zealand Financial Markets Authority. AMP continues to engage with its prudential regulator, APRA, under the Supervision Risk and Intensity assessment model.

If the AMP Group does not meet applicable laws or the requirements of regulators, it may be required to take remedial actions and also incur penalties (both civil and criminal), such as fines or

obligations to pay compensation, the cancellation or suspension of its authority to conduct business, enforceable undertakings, or recommendations and directions for AMP to enhance its control framework, governance and systems, or a requirement to hold a greater level of capital to support its businesses. Non-compliance with regulations may also give rise to adverse publicity for the AMP Group and impact its reputation. Regulatory action may also be taken if AMP is considered to be accepting an unacceptably high level of risk in its business operations.

#### Legislative and regulatory change

The financial services industry continues to undergo a significant level of regulatory and legislative change. While AMP cannot accurately predict the impact of future legislation and regulatory change, AMP continues to respond and adjust its business processes for these changes. Failure to adequately anticipate and respond to future regulatory and legislative changes could have a material adverse impact on the performance of its businesses and achieving its strategic objectives.

In particular, the AMP Group provides advice, products and services relating to financial planning, superannuation, investments and retail banking, amongst other things. Providers and distributors of such advice, products and services in Australia are subject to various legislative and prudential requirements, including the *Corporations Act 2001* (Cth), the *Australian Securities and Investments Commission Act 2001* (Cth), the *Banking Act 1959* (Cth), the *Superannuation Industry (Supervision) Act 1993* (Cth), the *National Consumer Credit Protection Act 2009* (Cth), the *Competition and Consumer Act 2010* (Cth), the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth), the *Financial Transaction Reports Act 1988* (Cth) and the *Privacy Act 1988* (Cth) and related regulations and APRA prudential standards. This regulatory regime is complex and is presently undergoing significant change. Any failure to comply with regulatory and legislative requirements may result in breaches, fines, regulatory action or reputational impacts, which could have a material adverse impact on the financial performance and position of the AMP Group.

Providers and distributors of wealth management and wealth protection products are also subject to legislative and regulatory requirements in New Zealand. The New Zealand financial services industry has undergone significant legislative and regulatory reform, with some of this ongoing. The significant changes in financial services regulatory reform have increased the compliance burden for the AMP Group companies operating in New Zealand.

Any significant changes in or application of government policy or legislation in relation to advice, superannuation, managed investments, bank deposits and mortgages may materially impact the AMP Group's strategy and operating performance. In addition, enforcement action may result in fines, other regulatory action or reputational impacts, which could have a material adverse impact on the financial performance and position of the AMP Group.

Any significant change in the standards prescribed by regulators may have a significant impact on the financial performance and position of the AMP Group, and the level of capital required to support the AMP Group's business units. 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 their businesses and/or require those entities not to pay dividends on their shares or restrict the amount of dividends that can be paid by them.

The results of any of the legislative or regulatory changes described in this section may also require the AMP Group to revise or withdraw its range of products and services, change its premiums, fees and/or charges, redesign its technology or other systems incurring significant expense, retrain its staff and planners, pay additional tax, hold more capital or incur other costs. This may also have a material adverse impact on the financial performance and position of the AMP Group.

The AMP Group has training, supervision and compliance processes in place to ensure its businesses, including its Advice network, operate within the evolving legal and regulatory framework. Despite the resources allocated to compliance, there is a risk that advisers and/or AMP Group entities may not comply with the law or regulations when providing products or services to, or receiving fees from, clients or investors. In the event that clients or investors suffer losses as a consequence of any non-compliance with laws, compensation may be required. This could have a

material adverse impact on the financial performance and position of the AMP Group if or to the extent such payments are not covered by the professional indemnity insurance which the AMP Group has in place.

#### Industry and regulatory compliance investigations and oversight

The AMP Group is subject to regulatory investigations, reviews and other compliance queries from regulators from time to time. ASIC and APRA may at any time have underway a number of reviews and enforcement investigations of the financial services industry, which may include reviews by independent experts appointed or directed by regulators. These matters are ordinarily not disclosed unless a material and adverse conclusion is reached. There are presently a number of these matters which are the subject of current consideration by regulators in which no conclusion has been reached, and AMP has also made reports of certain matters to which there is yet to be a regulatory response. AMP also investigates possible breaches of any legal, regulatory and other compliance obligation in accordance with AMP's Incident, Issue and Breach Management Policy and AMP will report to the relevant regulator if AMP concludes that there is a reportable breach.

In June 2019, APRA imposed additional conditions and in December 2019, additional directions upon AMP's Superannuation Trustees' Responsible Superannuation Entity Licences and has since accepted the final report from the independent expert. AMP's Superannuation Trustees entered into a Court enforceable undertaking with APRA on 16 November 2021 in relation to a number of historical matters in its superannuation business.

If any regulator takes an adverse view on breaches, there may be reputational consequences, and depending on the outcome, there may be the imposition of civil and/or criminal penalties, remediation costs, variations or restrictions, suspension or cancellation of licences, the compensation of customers, enforceable undertakings, infringement notices, fines or recommendations and directions for AMP to enhance its control framework, governance and systems. This may have a material adverse impact on the overall financial position and performance of AMP. In addition, if any of these reviews or any other review that AMP is not currently aware of leads to legislative or other regulatory change, this could have an impact on the operating model and/or profitability of AMP's wealth business or other businesses. Further, AMP's ability to charge fees and/or provide certain client offerings in particular circumstances may be materially and adversely affected.

#### Financial advice reforms

AMP has training, supervision and compliance processes in place designed to support its advice network operating within the legal and regulatory framework. There remains a risk that advisers and/or AMP subsidiaries may not comply with the law or regulations when providing advice, products or services to, or receiving fees from, clients or investors or that its compliance processes may fail. In the event that clients or investors suffer losses as a consequence of any non-compliance with laws, compensation may be required to be paid and those matters could be the subject of litigation or regulatory action including fines. This could have a material adverse impact on AMP's reputation and the overall financial position, performance and capital of AMP, if or to the extent that these are not covered by the professional indemnity insurance AMP has in place or not covered by AMP's remediation provisions to date.

The final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry announced in 2017 (**Royal Commission**) made a number of recommendations in relation to financial advice, a number of which have already been legislated. In particular, refinements to the deduction of fees charged for the provision of financial advice became effective on 1 July 2021. The changes were designed to ensure clients are fully informed of the fees incurred for advice services charged, through annual consents and disclosures of the advice services. The consent to deduct advice fees from products, including superannuation, requires increased administration. Non-compliance with obligations, including breaches of the sole purpose test or the non-delivery of services, may result in regulatory action and consequences.

On 28 October 2021, the *Financial Sector Reform (Hayne Royal Commission Response – Better Advice) Act 2021*, was passed, which covers the single disciplinary body (Recommendation 2.10) and commenced from 1 January 2022. This legislation included the winding up of the Financial Adviser Standards and Ethics Authority (**FASEA**) and the transfer of its functions to the Minister

responsible for administering the Corporations Act and to ASIC. On 21 April 2021, the government announced that it will commission a review of the financial advice sector in 2022, focusing on the quality, affordability and accessibility of advice. The Terms of Reference were released on 11 March 2022. If further legislation is introduced, or if AMP takes steps in relation to these matters before they are legislated, there may be an impact on AMP's financial advice businesses. Whilst the AMP Group has reduced the size of its advice network, the strategy to remain in the provision of financial advice may be challenged by regulatory and compliance changes and investigations.

Further, the Financial Services Compensation Scheme of Last Resort bills were released in October 2021 to establish a Compensation Scheme of Last Resort (**CSLR**). The CSLR arose from the Government's commitment to implement Recommendation 7.1 of the final report of the Royal Commission. The CSLR will provide compensation to eligible victims of financial misconduct who have not been paid, typically because the financial institution involved in the misconduct has become insolvent. The CSLR funding levy will incur additional cost on financial advisers and AMP, increasing the risk of advice unaffordability and further pricing customers out of the market. The bills are currently before the Senate and passage is not likely to occur until after the Australian Federal Election in 2022.

Any legislative and regulatory change and an increased compliance burden may result in operational and financial risk including but not limited to a reduction in adviser productivity, advisers exiting the industry, higher operating costs, higher cash outflows and greater capital requirements. There is also a risk that past changes to Buyer of Last Resort structures or buy back arrangements could result in further legal action or that proposed changes to other policy positions of AMP's adviser licensees could result in legal action. AMP may choose to revise or withdraw its range of products and services, fees and/or charges, redesign its technology or other systems incurring significant expense, retrain its staff and advisers, hold more capital or incur other costs. This may have a material adverse impact on the overall financial position and performance of AMP. Further changes in the financial planning industry may continue to adversely affect the value of registers of clients.

### Superannuation

The superannuation industry has undergone a number of reforms in recent years. Relevant legislative reforms include the following:

- In June 2021, the *Treasury Laws Amendment (Your Future, Your Super) Act 2021 (YFYS Act)* was enacted. The YFYS Act seeks to provide greater transparency over fund performance and to give members the ability to "choose the best super fund for them". In particular, from 1 July 2021, superannuation products are subject to an annual performance assessment by APRA. The AMP MySuper products passed their first annual performance test in October 2021. However, there is a risk that AMP's MySuper products may not pass the annual performance assessment in the future. The second phase of YFYS extends the annual performance assessment to AMP's Trustee Directed Products and there is a risk that those products may not pass that assessment.
- The YFYS Act also introduced a regime which from November 2021 "staples" a superannuation account to a member for their working life to address the proliferation of superannuation accounts for employees. These reforms may impact AMP's corporate super business.

APRA regularly releases "product heat maps" relating to fees and investment performance of MySuper and Choice products, with the most recent one released in December 2021. The heat map is designed to provide stakeholders with insights into the outcomes being delivered by Registrable Superannuation Entity (**RSE**) licensees, in particular for investment returns and fees and costs. The release of a heat maps may result in adverse publicity and withdrawal of client funds, which in turn could have an adverse impact on AMP's financial position and performance.

### Banking reforms

In December 2020 APRA released its Review of the Authorised Deposit-taking Institution (**ADI**) Capital Framework which outlines the proposed changes to regulatory standards for capital management and measurement (including APRA's prudential standards APS 110, 111, 112 and

115 *Capital Adequacy*) and will conclude the introduction of the Basel III reforms. The majority of the announced capital framework reforms are scheduled to come into effect on 1 January 2023 and will principally see the introduction of counter cyclical capital buffers intended to provide flexibility in times of stress with some lowering of risk weights for lending assets. Consultation on elements of capital framework reforms will continue through 2022.

In response to a Royal Commission recommendation, the Government announced in 2019 that it will task the ACCC and Council of Financial Regulators with conducting a review in three years' time of changes to mortgage broker remuneration and commissions in the context of the impact of the changes and implications for consumers and competition of further changes. The review is likely to occur in mid-to-late 2022 and its findings will be critical for the future of the mortgage broking industry and non-major banks like AMP Bank. Mortgage brokers are a primary distribution source for non-major banks to leverage their ability to compete with the major banks in Australia.

#### Relevant provisions of the Banking Act, powers of a statutory manager and APRA secrecy rules

AMP is currently an authorised non-operating holding company (**NOHC**) of a life insurer and is in the process of becoming a NOHC of an ADI (**AMP Bank**) following the majority divestment of its life insurance business to Resolution Life in June 2020. Timing for transition to the licence is as yet uncertain but appears likely to occur during the second quarter of 2022.

Award of an ADI NOHC licence provides APRA with certain formal powers relating to resolution of the NOHC or of the ADI. In certain circumstances APRA may appoint a statutory manager to take control of the business of a NOHC of an ADI.

The circumstances in which APRA may appoint a statutory manager to take control of an authorised NOHC of an ADI such as AMP are defined in the Banking Act. They include, among other things, where a statutory manager has taken control of an ADI which is a Subsidiary of the NOHC (or APRA intends that this occur) and APRA either:

- considers the NOHC provides services or conducts business essential to the capacity of the ADI to maintain its operations; or
- considers that this is necessary to facilitate the resolution of an ADI or one or more of its Related Bodies Corporate.

The grounds on which APRA may appoint a statutory manager to an ADI include (but are not limited to):

- where it becomes unable to meet its obligations or suspends payment;
- where it informs APRA that it considers it is likely to become unable to meet its obligations, or is about to suspend payment; and
- where APRA considers that, in the absence of external support:
  - it may become unable to meet its obligations
  - it may suspend payment
  - it is likely that it will be unable to carry on banking business in Australia consistently with the interests of its depositors; or
  - it is likely that it will be unable to carry on banking business in Australia consistently with the stability of the financial system in Australia.

The powers of a statutory manager under the Banking Act include the power to alter a NOHC's constitution, to issue, cancel or sell shares (or rights to acquire shares) in the NOHC and to vary or cancel rights or restrictions attached to shares in a class of shares in the NOHC.

APRA may also, in certain circumstances, require AMP to transfer all or part of its business to another entity under the *Financial Sector (Transfer and Restructure) Act 1999* (Cth).

In addition, secrecy obligations may apply to action taken by APRA. This means that information about action taken by APRA (including in exercise of its powers under the Banking Act) may not be publicly disclosed.

#### Litigation risk

From time to time, the AMP Group may incur obligations arising from litigation or contracts entered into in the normal course of business, including guarantees issued by the parent for performance obligations to controlled entities in the AMP Group. Legal proceedings threatened against AMP may

also, if filed, result in AMP incurring obligations.

Entities within the AMP Group may be the subject of various investigations by regulators as a result of their ongoing activities. If adverse findings are made arising out of these investigations and any subsequent litigation, this may expose the AMP Group to fines, other statutory or regulatory sanctions and/or a requirement to pay compensation.

Any material or costly dispute, litigation, investigation or compensation program involving the AMP Group could have a material adverse impact on the financial performance and position of the AMP Group.

Where appropriate, provisions are held for litigation matters and regulatory investigations based on a number of assumptions derived from a combination of past experience, forecasts, industry comparison and the exercise of subjective judgement based on (where appropriate) external professional advice. As with other accounting judgements, risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the AMP Group. There is inherent uncertainty regarding the possible outcome of any court proceedings involving the AMP Group as a result the aggregate potential liability and costs in respect of legal proceedings cannot be estimated with any certainty. It is also possible that further class actions, regulatory investigations, civil or criminal proceedings or the imposition of new licence conditions may occur in the future. Refer to the AMP Limited Annual Report (available at: [https://corporate.amp.com.au/content/dam/corporate/shareholdercentre/files/reports/2022/MARCH/220308\\_2021\\_AMP\\_Annual\\_Report.pdf](https://corporate.amp.com.au/content/dam/corporate/shareholdercentre/files/reports/2022/MARCH/220308_2021_AMP_Annual_Report.pdf)), Section 6.4 “Provisions and Contingent Liabilities” in the Notes to the Financial Statements, for details in relation to certain legal proceedings and contingent liabilities which may impact the AMP Group.

#### Client remediation

AMP has completed all reviews for its advice review and remediation programs which sought 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 services).

Remediation payments to customers with AMP products are complete and payments to customers charged fees via external products are expected to complete in Q1 2022 or shortly thereafter.

#### Tax laws

Tax law is frequently being changed, both prospectively and retrospectively. Of particular relevance to the AMP Group are changes to tax law affecting the superannuation and financial services industries. Significant tax law changes and current proposals for reforms give rise to risks, as the status and precise scope of many new and proposed tax laws is not yet known.

There are risks that any changes to the tax law, including the current rate of company income tax and further changes to tax concessions such as research and development expenditure, may both impact on demand for financial products and services and also impact on shareholder returns and the level of dividend franking.

The ATO, as part of its ordinary processes in reviewing large business taxpayers, takes into account their size and complexity. The AMP Group, as a large and complex group, can be expected to be subject to a high level of review by the ATO in respect of ongoing taxation compliance. The Inland Revenue takes a similar approach in New Zealand.

#### Financial Contingency Planning and Resolution Planning

APRA has begun consulting on new prudential standards to strengthen the preparedness of banks, insurers and superannuation trustees to respond to future financial crises. CPS 190 Financial Contingency Planning is aimed at ensuring all APRA regulated entities have plans for responding to severe financial stress. CPS 900 Resolution Planning would require large or complex APRA regulated entities to take pre-emptive actions so that in the event of their failure APRA can resolve them with limited adverse impacts on the community and the financial system. In line with APRA's request, AMP is taking necessary steps to enhance its contingency planning as part of the Recovery Plans for AMP Limited, AMP Bank and NM Super. The new prudential standards are expected to come into force from 1 January 2024. AMP will be required to comply

with the standards and in doing so will require to adjust its frameworks, policies and processes.

#### Design and distribution obligations and Strengthening Breach Reporting

Examples of recent key legislative changes impacting on AMP are the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019* (Cth) (**DDO Legislation**) and the Strengthening Breach Reporting (**SBR**) requirements that came into effect in October 2021.

The DDO Legislation is designed to help consumers obtain appropriate financial products by requiring issuers and distributors to have a consumer-centric approach to designing and distributing products. The legislation also gave ASIC a significant, proactive power to issue a product intervention order if it believes that a financial product has resulted in or will, or is likely to, result in significant detriment to retail clients or customers. ASIC is required to undertake a consultation process before it makes a product intervention order. The impact of these new obligations on AMP's financial instruments (including capital notes) remains largely untested, however there is a risk that they may adversely impact the issue, distribution and refinancing (via similar instruments) of these types of financial products in the future.

SBR is new breach reporting regime that imposes new breach reporting requirements, including lowering the threshold for reporting and expanding the situations that need to be reported to ASIC. AMP has seen a significant increase in the volume of reportable situations, due to the lowered thresholds and inclusion of legacy matters.

While AMP has taken appropriate steps to respond to the new requirements, ASIC has indicated that DDO and SBR are areas of supervisory focus and will be closely overseeing AMP's controls and compliance. If there are material areas of non-compliance, it may result in regulatory action or further implementation costs.

#### Financial Accountability Regime

Draft consultation legislation was released in July 2021 to introduce the Financial Accountability Regime (**FAR**). The draft legislation was expected to pass Australian Parliament during Q4 2021, but has been delayed and it is uncertain when it will be passed. FAR is a response to several Royal Commission recommendations and aims to improve the risk and governance cultures of Australia's financial institutions by imposing greater responsibility and accountability on those institutions and their directors, and senior and influential executives. FAR extends the existing BEAR to cover all APRA regulated entities (accountable entities). FAR will be jointly administered by APRA and ASIC and impose greater civil penalties than those imposed by BEAR.

FAR is expected to commence, for ADIs and their licensed NOHCs, from the later of 1 July 2022 or six months after commencement of the legislation, and for other APRA-regulated entities from the later of 1 July 2023 or six months after commencement of the legislation.

AMP will be required to implement this proposed legislation. In doing so, AMP will incur additional costs and expenditures to adjust its frameworks, policies and processes to ensure compliance with FAR. Other potential risks to AMP from the FAR legislation include the risk of penalties and the risk to the Group's ability to attract and retain high-quality directors and senior executives given potential penalties imposed on accountable persons.

#### Consumer Data Right

In 2019, the Australian Government legislated for an economy-wide Consumer Data Right (**CDR**) to give consumers access to and control over their data. Monitoring and enforcement of the CDR regime is jointly conducted by the ACCC and the Office of the Australian Information Commissioner. The CDR regime initially applies to banking (referred to as Open Banking). The Open Banking requirements are being implemented and apply progressively to banks and other participants (including AMP Bank), for different categories of data and disclosure methods, across multiple stages from February 2020 to February 2022 onwards. The requirements involve complex system and application programming interface builds, rigorous security requirements and extensive testing requirements, including end-to end internal and industry testing. The Open Banking requirements represent significant delivery and operational risks, which have been elevated by the COVID-19 pandemic. These reforms are intended to increase competition in the financial sector and improve customer outcomes. Increased competition resulting from Open

Banking may adversely impact the financial performance and position of the AMP Group.

The Australian Government proposes to extend the CDR regime to other sectors of the economy including 'Open Finance'. If CDR is extended to superannuation there would be similar operational and delivery risks to AMP's superannuation and retirement savings businesses.

#### Regulatory capital risks

APRA or other regulators may change their standards and require AMP (including specific subsidiaries) to hold a greater level of capital to support its business and/or require entities in the AMP Group not to pay dividends on their shares or restrict the amount of dividends that can be paid by them. If this were to occur, this would have a significant impact on the overall financial position and performance of AMP.

If AMP's capital were to fall below the minimum requirements set by regulators and market conditions meant that AMP was not able to raise further capital from investors, the ability of AMP to conduct its business would be seriously compromised. A decrease in capital could result from poor business performance, adverse litigation outcomes, excessive investment in the business, regulatory sanctions, adverse changes to the regulatory or commercial environment relating to advice business acquisitions or impairments of intangible assets or other adverse outcomes.

#### Business and industry risks

##### Investment management performance

If AMP Capital or other investment managers contracted by the AMP Group underperform peer investment managers and/or the market more generally for a prolonged period, the demand for the AMP Group's financial products and services may reduce materially. To the extent that this risk materialises, it may have a material adverse impact on the financial performance and position of the AMP Group.

As discussed above, APRA regularly releases Heat Maps relating to fees and investment performance of MySuper and Choice products which illustrates the degree of performance relative to other products and selected benchmarks.

If MAG or investment managers contracted by the AMP Group underperform peer investment managers and/or the market more generally for a prolonged period, the demand for the AMP Group's financial products and services may reduce materially. To the extent that this risk materialises, it may have a material adverse impact on the financial performance and position of the AMP Group.

Fee income on the investment-linked business and investment-management business of the AMP Group is primarily based on the level of assets under management and investment performance. The potential future loss of mandates, including corporate super or fund mandates or redemptions by investors, would adversely impact on the level of assets under management by AMP.

A deterioration in investment performance or a decline in assets under management may have a material adverse impact on the financial performance and position of the AMP Group.

##### Funding, liquidity and credit rating risk

"Funding risk" relates to the risk of one or more of the AMP Group's sources of funding being reduced or eliminated or a significant increase in the cost of funding through either a systemic (including, for example, if a change in customer behaviour driven by low, zero or negative interest rates leads to an outflow of deposits) or company-specific event. "Liquidity risk" is the risk that the AMP Group fails to meet its payment obligations, which may arise as a result of a mismatch between those payment obligations and the AMP Group's access to liquid assets, adequate funding on acceptable terms, or cash flows generated by its businesses.

If the AMP Group's current sources of funding prove insufficient, it may be forced to seek alternative funding. The availability of such funding, and the terms on which it may be made available, will depend on a number of factors, including market conditions, the availability of credit, the AMP Group's credit ratings and credit market capacity.

An inability to manage the funding risks for the AMP Group may result in forced asset sales or default, which could adversely impact the AMP Group's reputation, brand, and banking and capital



market relationships.

Business entities within the AMP Group including investments and/or funds managed by AMP Capital may breach or risk breaching their loan and other debt covenants. Some of these facilities may have recourse to the AMP Group and in the event of a breach the financiers have the ability to demand immediate repayment of the debt and enforce other rights, which may give rise to the funding risks described above. To the extent the above circumstances arise, this may have a material adverse impact on the financial performance and position of the AMP Group.

In addition, AMP's forecast capital and liquidity positions are best estimates at a point in time, and therefore they are not guaranteed and may not be accurate. AMP's liquidity would be affected if for any reason it was unable to transfer liquidity between its subsidiaries. There is also a risk that intra-group guarantees between members of the AMP Group could cause various subsidiaries to go into financial stress.

AMP Bank holds intra-group deposits from the platform and superannuation businesses. These deposits are in the form of at-call cash accounts and term deposit accounts and as such AMP Bank has ongoing obligations as well as exposure to the daily fund movements. Failure to adhere to these obligations, including managing conflicts, can result in termination of the contract, withdrawal of deposits and a material impact on the financial position and performance of AMP. Furthermore, these deposits may be subject to repricing or restructuring based on review by the superannuation trustees or other responsible entities. This could impact the financial position and performance of AMP Bank.

If AMP's or its subsidiaries' credit ratings are downgraded by Standard and Poor's or Moody's or its reputation is damaged resulting in a loss of public confidence, it may result in customers and clients withdrawing their funds or bank deposits or letting their policies lapse, as well as potentially affecting the cost and availability of finance for AMP Group and its ability to access debt capital markets, which would adversely affect the liquidity, capital, financial position and performance of AMP.

#### Interest rate risk

"Interest rate risk" is the risk of financial loss arising from unanticipated interest rate settings and/or adverse fluctuations in interest rates and may have a material adverse impact on the financial performance and position of the AMP Group.

There is a risk of an extended period of low interest rates (including potential for zero or negative interest rates) and other monetary stimulus measures such as quantitative easing in Australia. These monetary policy settings are unprecedented in Australia and may have a material adverse impact on the financial performance and position of the AMP Group. The level of interest rates can impact:

- the valuation of assets and liabilities;
- the effectiveness of hedging of assets and liabilities in certain products and portfolios including annuities, defined benefit obligations, capital guaranteed and non-investment-linked products;
- the investment returns on the AMP Shareholders' funds;
- the fair value of investment guarantees the AMP Group has issued in respect of its products, as well as the asset and financial instrument values backing these products;
- the attractiveness of AMP's products relative to alternatives;
- AMP Bank's financial condition through the bank's net interest income and the level of other interest-sensitive income and operating expenses;
- the carrying value of implicit deferred acquisition costs; and
- the AMP Group's funding costs.

Low interest rates may result in lower investment returns for the AMP Group. To the extent the benefits payable to investors in non-investment-linked products are greater than the return that the AMP Group receives from the relevant underlying investments, the AMP Group is exposed to loss and the need for increased capital requirements.

The AMP Group and AMP Bank currently manage interest rate risk through hedging arrangements. Disruptions in financial markets may affect the availability, cost and terms of

hedging, which may have a material adverse impact on the financial performance and position of the AMP Group.

### Credit risk

“Credit risk” is the risk that default by a counterparty will result in a financial loss to the AMP Group. Credit risk exists in most parts of the AMP Group, including reinsurance and derivative contracts used to protect the AMP Group’s financial and capital position from investment market volatility. It is also a significant risk for AMP Bank and arises from AMP Bank’s lending and investment activities. The risk arises from the likelihood that some customers and counterparties will be unable to honour their obligations to AMP Bank, including the repayment of loans and interest.

AMP Bank utilises Lenders’ Mortgage Insurance (LMI) to partially mitigate credit risk and minimise the capital requirements of its mortgage book. A default of an LMI provider will expose AMP Bank and the AMP Group to loss and increased capital requirements.

Credit risk is a significant risk in relation to the AMP Group’s extensive banking and trading relationships. Credit risk also arises in relation to exposures from deposits and debt securities, futures and options broker clearers, over-the-counter derivative counterparties, widening credit spreads and loans to non-wholly owned subsidiaries and loans to joint ventures. While the AMP Group utilises mechanisms to mitigate a number of those exposures, including collateral and netting agreements, there can be no assurance that these arrangements fully limit those exposures.

A number of activities (consisting of, but not limited to the defined benefit funds and AMP Bank’s balance sheet) are managed with fixed interest assets. The AMP Group is exposed to credit risk, including the risk of widening credit spreads on the portfolio of fixed income assets.

To the extent that any of the above risks arise, this may have a material adverse impact on the financial performance and position of the AMP Group.

### Foreign exchange risk

“Foreign exchange risk” is the risk of the AMP Group sustaining loss through adverse movements in exchange rates. Such losses can affect the AMP Group’s financial position and performance, and the level of capital supporting the AMP Group’s businesses. From an operational perspective, the AMP Group faces exposure to foreign exchange risks through direct foreign income and expenses, the settlement of foreign currency denominated assets and liabilities, seed and sponsor investments within Collimate Capital and earnings and balance sheet movements from non-Australian subsidiaries. This may have a material adverse impact on the financial performance and position of the AMP Group.

### Capital risk

“Capital risk” is the risk that the AMP Group does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses. Capital supports AMP Group’s operations by providing a buffer to absorb unanticipated losses from its activities.

Compliance with prudential capital requirements in the jurisdictions in which the AMP Group operates and any further changes to these requirements may:

- Limit the AMP Group’s ability to manage capital across the entities within the Group.
- Limit payment of dividends or distributions on shares and hybrid instruments.
- Require the AMP Group to raise more capital (in an absolute sense) or raise more capital of higher quality.
- Restrict balance sheet growth.

If the information or the assumptions upon which AMP Group’s capital requirements are assessed prove to be inaccurate, this may adversely impact the AMP Group’s operations, and financial performance and position.

### Benchmark reform

The cessation of parts of the LIBOR regime from 1 January 2022, continuation of some U.S. Dollar LIBOR settings until 30 June 2023 and possible pre-cessation events will continue to impact

market pricing. Any future changes in the manner of administration of any benchmark could require an adjustment to the terms and conditions of existing transactions, or result in other consequences, in respect of financial instruments linked to such benchmark (including but not limited to floating rate instruments whose interest rates are linked to LIBOR). Any such consequence may have an impact on the financial performance of products managed by the AMP Group and impose a cost to AMP Group to manage an orderly transition.

#### Accounting policies

The accounting policies and methods that the AMP Group applies are fundamental to how it records and reports its financial position and the results of its operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting policies and methods, but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of financial position and results of operations.

In some cases, management must select an accounting policy or method from two or more alternatives, any of which might comply with generally accepted accounting principles and be reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under another alternative.

The AMP Group's accounting policies and methods may change from time to time with changes in accounting standards and regulation. Accounting policy changes that result in a reclassification of assets between tangible and intangible assets could have a material adverse impact on the AMP Group's capital position.

#### Credit risk in mortgage lending

AMP Bank has a lending book of Australian mortgage-secured loans, consisting of owner-occupied, investor lending and practice finance loans to some AMP Financial Planners. The debtors of these loans could default, resulting in a loss for AMP Bank. In the case of a default on a practice finance loan, AMP Group will be contractually obligated to reimburse AMP Bank for the loss incurred.

#### Defined benefits fund

While all of AMP's defined benefit funds are currently fully funded, there is a risk that these funds could be in a deficit position during any given period. This deficit and the potential future funding requirements may be adversely impacted by investment returns, adverse movements in interest rates, or adverse member experience, including that related to longevity.

#### Adverse impact on product margins

Product margins across AMP are likely to be adversely impacted by a number of factors including legislative and regulatory changes, competitive pressures, margin squeeze, changing consumer and distribution channel behaviour, portfolio experience, funding cost increases, economic outlook, product offering and sales mix changes and strategic distribution channel changes.

These factors may have a material adverse impact on the overall financial position and performance of AMP. Given the trend in legislation and regulation (e.g. Protecting Your Superannuation reforms and other changes), it is likely that future legislative and regulatory changes will put more downward pressure on product margins.

#### Redemption risks

"Redemption risks" are the risks associated with the AMP Group's ability to meet customer requests for redemption from investments, retail deposits, superannuation or pension funds. The impact of these risks varies depending upon the nature and governing terms of the relevant investment, the arrangements with the customer and the assets in which the fund is invested or which back the policy liability.

#### Investment-linked products

Investors in investment-linked products may seek to redeem some or all of their investments. In order to satisfy these redemptions, AMP, as the manager of the investments, may be required to

sell assets underlying the investor's investment.

During certain periods, as was the case in the global financial crisis, some asset classes may be subject to a higher level of redemptions than historically had been the case. For funds and assets in highly liquid markets, the redemption requests can usually be met through asset sales. For funds and assets in illiquid markets, asset sales can be more difficult to achieve, particularly at short notice, and may result in the asset being sold below its fair value under normal market conditions. In extreme circumstances, it may not be possible to sell certain assets at short notice. Those outcomes could have a material adverse impact on the investment returns of those investors. This, in turn, may have a material adverse impact on AMP's overall financial position and performance.

To the extent that AMP believes it cannot meet redemption requests through asset sales, it will usually suspend or defer redemptions (where it has the right to do so) to allow sufficient time to complete the asset sales necessary to meet the requests.

The suspension or deferral of redemptions and subsequent sale of assets, especially below their fair value, may have a material adverse impact on the overall financial position and performance of AMP.

In addition, customer choice regarding investment preferences may materially impact on the financial performance and position of the Group (for example, the tendency to move from active to passive investments).

## **Financial risks**

### **Investment returns**

A proportion of AMP's profits are derived from investment returns (both income and net realised and unrealised capital gains or losses).

The underperformance of investments could have a material adverse impact on the overall financial position and performance of AMP and may result in the need for additional capital to support AMP's businesses.

Some products have investment guarantees and whilst these are monitored and managed, significant market movements (including those related to interest rates), and on-going periods of high volatility, could have a material adverse impact on the overall financial position and performance of AMP.

AMP holds capital above its minimum regulatory capital requirements to mitigate these and other risks. The amount of capital held will vary over time depending on the risk exposures and strategies used in managing the business and is consistent with the target of providing a very high level of confidence that the business is self-supporting and that there are sufficient assets to support liabilities.

Investment performance affects the level of investment return on shareholders' funds assets, including seed and sponsor capital. Funds, including shareholders' funds, are invested in a variety of asset classes, including, but not limited to, cash, Australian and international equities, fixed interest, property, infrastructure, infrastructure debt and private equity. The investment performance of these assets may have a material impact on the overall financial position and performance of AMP.

Changes in the value of, or returns from, these investments, including as a result of changes in valuations or the valuation methodology of unlisted assets, may have a material adverse impact on the overall financial position and performance of AMP and may affect the level of capital, liquidity and funding required to support AMP's businesses. In periods of extreme volatility, the values of these assets are subject to greater change and uncertainty.

### **Dividends**

The Board did not declare a HY21 or FY21 dividend. The capital management strategy and payment of dividends will be reviewed following the completion of the proposed demerger of the Private Markets Business in 1H22.

No assurances can be given in relation to the payment of future dividends. Any future

determination as to the payment of dividends by AMP will be at the discretion of the Directors and will depend on the financial condition of AMP, future capital requirements and general business and other factors considered relevant by the Directors. No assurances can be given in relation to the level of franking of future dividends. Furthermore, no assurance can be given in relation to AMP receiving dividends from its relevant subsidiaries.

Franking capacity will depend on the amount of Australian tax paid in the future, the existing balance of franking credits and other factors.

## **Social, environmental and economic risks**

### **Risks associated with COVID-19**

The COVID-19 pandemic, and future outbreaks of other communicable diseases or pandemics, have the potential to negatively impact the AMP Business.

In particular, if COVID-19 outbreaks continue to occur, there is a risk that a proportion of the workforce falling ill may create significant unexpected volatility in available headcount across the AMP Group. This heightens key person risk and may adversely impact on AMP Group's ability to deliver on key strategic and change programs on schedule.

Should any of these consequences occur, it is likely that they will result in a material adverse effect on AMP Group's financial position and performance. COVID-19, and the volatile regional and global economic conditions stemming from the pandemic, as well as reactions to future pandemics or resurgences of COVID-19, could also exacerbate the other risk factors described in this document.

### **Global markets and economic environment**

The financial performance of the AMP Group is significantly affected by changes in investment markets, market volatility, economic conditions, inflation and deflation rates and the level of interest rates. These changes may materially influence aspects of the AMP Group including the demand for its products, product margins, investment performance, consumer demand, liquidity, capital resources, reduced cash flows, the value of investments supporting shareholders' funds and investments held on behalf of clients, the availability and the cost of credit and the debt funding requirements of the AMP Group and the level of capital required within the AMP Group. These risks may have a material adverse impact on the overall financial performance and position of the AMP Group.

### **Systemic shocks in relation to Australian, New Zealand or other financial systems**

A major systemic shock could occur which causes an adverse impact on the Australian, New Zealand or other financial systems. The financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility and global economic conditions. Given this, there can be no certainty that any specific market disruptions will not spread, nor can there be any assurance that any future assistance packages or government intervention will be available, or sufficiently robust to address market contagion. Any such market disruptions could have a material adverse impact on the overall financial performance and position of the AMP Group.

### **Environmental and climate change**

AMP, its clients and its external suppliers may be adversely affected by the physical and transitional risks associated with climate change. These effects may directly impact AMP and its customers on a range of physical, financial and legal risks to the AMP Business, the investments AMP manages on behalf of its customers and the wider community.

Initiatives to mitigate or respond to adverse impacts of climate change may in turn impact market and asset prices, economic activity and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes.

AMP's approach to managing climate related risks and opportunities is outlined in AMP's Climate Position and Action Plan, available on the AMP website. It includes providing low carbon and green investment choices to customers, managing and disclosing investment risks, leveraging

AMP's influence as an investor, reducing AMP's own operational impacts and offering support to customers and communities.

AMP provides annual performance disclosures aligned to key pillars of the Task Force on Climate-related Financial Disclosures framework, including through its Sustainability Report and through investor led disclosures such as the CDP (formerly Carbon Disclosure Project). In 2021, AMP retained an A- rating (second highest rating available) in the annual CDP investor disclosure program, indicating leadership in its management of climate related risks and opportunities. AMP has been carbon neutral across its operations since 2013, utilising carbon offsets to address the direct impacts of its business activities.

### Contagion risk

Contagion risk is the risk of default by one or more financial institutions which could lead to market-wide liquidity problems, losses or defaults by other institutions. This risk arises in part because of the inter-relationships between many financial institutions (including AMP) and is heightened in times of significant volatility in the finance sector and financial markets more broadly. Contagion risk may have a material adverse impact on the overall financial position and performance of AMP.

### Operational risks

Operational risk exposures relevant to the industry in which AMP operates relate to losses resulting from inadequate or failed internal processes, people and systems or from external events. These include, but are not limited to, information technology, human resources, internal and external fraud, money laundering and counter-terrorism financing, bribery and corruption. High operational risks are driven by a complex operating environment associated with legacy products, systems and manual controls. This environment will be further stressed by the key business challenges included in this section.

AMP is committed to containing operational risk by reducing operational complexity and strengthening risk management, internal controls and governance. AMP continues to reshape the Adviser network and simplify the superannuation products and investment options. The AMP operational risk profile reflects these exposures and the financial statements of AMP contain certain provisions and contingent liability disclosures for these risks in accordance with applicable accounting standards. Given the inherent uncertainty in predicting the outcome of events that may occur in the future, there can be no assurance that such provisions or disclosure adequately address all outcomes that may arise in the future.

### Structural subordination

AMP is a non-operating holding company whose assets consist primarily of ownership interests in subsidiaries. AMP is reliant on the financial performance of, and the continued receipt of dividends or other funding from, its subsidiaries. There is a risk that these subsidiaries may not be in a position to make funds available to AMP to enable it to meet its obligations.

### Conflicts of interest

As part of being an Australian financial services licensee, AMP Group entities have obligations to manage conflicts of interest. AMP has conflicts of interest policies and information barrier arrangements in place to manage this. If these policies and arrangements are not followed or prove inadequate and the conflicts of interest are not appropriately disclosed or managed, this could result in breaches of law, regulatory investigations, amendments to licensing conditions, fines, penalties and litigation, all of which could have an adverse impact on AMP's reputation and may lead to loss of customers, resulting in an adverse impact on AMP's financial position and performance.

### Business, employee and business partner conduct

The conduct of financial institutions is an area of significant focus for the financial services industry both globally and in Australia and New Zealand. AMP devotes significant effort to ensure that its business practices, management, staff or business partner behaviours meet the conduct expectations of regulators, customers and the broader community, and do not result in an adverse impact on AMP's reputation and value proposition to customers.

AMP's code of conduct outlines how AMP seeks to conduct its business and how it expects people

to conduct themselves. The principles that define the high standards outline the behaviour and decision-making practices, including how AMP treats its employees, customers, business partners and shareholders. AMP is committed to ensuring the right culture is embedded in our everyday practices.

AMP embraces a safe and respectful work environment that encourages its people to report issues or concerns in the workplace. Directors, employees (current and former), contractors, service providers or any relative or dependants of any of these people can utilise the whistleblowing program to report misconduct or unethical behaviours. AMP could be adversely affected if an employee, contractor or external service provider does not act in accordance with AMP's staff policies or engages in misconduct.

It is not always possible to detect or deter employee misconduct, and the precautions taken by AMP may not be effective in all cases. If one or more of AMP's employees or former employees were to engage in or be accused of misconduct, this could have a material adverse impact on AMP's reputation and result in a loss of investor confidence.

#### Staff retention and key person risk

Staff retention and key person risk are key operational risks for AMP. AMP's future success and delivery to strategic priorities will depend on its continued ability to engage, attract and retain highly skilled and qualified personnel. The ongoing changes to AMP's business model have placed increased pressure on resourcing. As a result, there can be no assurance that key personnel will continue to be employed by, or contracted to, AMP. Failure to attract or retain advisers could potentially have a material adverse impact on the overall financial position and performance of AMP. Loss of key personnel who are nominated as responsible managers under AMP Group's regulatory licences, could also compromise AMP's ability to meet organisational competence requirements which apply to AFSL holders. AMP undertakes talent assessment and retention planning to identify key people and implement action with the aim of retaining key talent.

#### Insurance risk

AMP maintains a number of insurances to mitigate against the financial impacts of operational and other risks. The market for insurance in Australia, particularly for financial institutions, has in recent years become extremely challenging, with reduced capacity, higher premiums, more restricted terms, and higher deductibles. There is a risk that AMP may not be able to renew these policies on similar terms and conditions, particularly as to limits and deductibles. This may increase AMP's exposure to the financial impacts of events or incidents otherwise claimable. Further, any renewal may be at a materially increased cost via higher premiums, which may adversely affect AMP's financial performance.

#### Failure of risk management strategies and internal controls

AMP has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate risks. These risks include, but are not limited to, strategic, liquidity, market, credit, counterparty, compliance, market conduct and operational risk which are all important to AMP's reputation. However, there are inherent limitations with any risk management framework and internal control framework as there may exist, or emerge in the future, risks that AMP has not anticipated or identified. If any of AMP's processes and procedures prove ineffective or inadequate, or are otherwise not appropriately implemented, this could have a material adverse impact on the overall financial position and performance of AMP.

#### Outsourcing risk

"Outsourcing" involves an organisation entering into an agreement with another party (including a related company) to perform, on a continuing basis, a business activity that currently is, or could be, undertaken within that organisation. "Offshoring" is the practice of outsourcing business activities to a service provider located in another country or where material elements of the service are provided from another country.

While AMP requires that all material outsourcing arrangements are appropriately established and managed so that AMP maintains its reputation and financial performance, and continues to meet its obligations to regulators, customers and other stakeholders, there remains a risk that these arrangements might fail.

## Technology risk

Technology plays an increasingly important role in the delivery of financial services to customers in a cost-effective manner. AMP's ability to compete effectively in the future will, in part, be driven by AMP's ability to maintain an appropriate technology platform (including execution of new developments), for the efficient delivery of its products and services. Consequently, there is a risk that these, or the services AMP uses or is dependent on, might fail.

Most of AMP's daily operations rely on information technology (IT) systems that are essential to maintaining business systems including effective communications with customers. The exposure to IT systems risks includes the complete or partial failure of information technology systems or data centre infrastructure, the inadequacy of internal and third-party information technology systems due to, among other things, failure to keep pace with industry developments and keep technology systems up-to-date and secure, and the capacity of the existing systems to effectively accommodate growth and integrate existing and future acquisitions and alliances.

AMP acquires, builds and maintains IT systems to assist it to satisfy regulatory demands, ensure information security, enhance services for its customers and integrate the various segments of its business. AMP uses select external providers (in Australia and overseas) to provide its technology services, including an increasing use of cloud infrastructure. Failure of these IT systems could result in regulatory intervention, business interruption, loss of customers, financial compensation, loss of reputation and/or a weakening of AMP's competitive position. A failure to implement IT projects effectively or execute them efficiently could lead to increased project costs, delays in the ability to comply with regulatory requirements or failure of information security controls.

There is also a risk that competitors introduce new technologies which challenge, or render redundant, the technology used by AMP. Together with these factors, a failure to respond to new technologies may result in an actual or comparative decrease in AMP's ability to service its customers.

Failure to spend adequately on IT systems leads to increased risk of system performance degradation, cyber-risk and cost of change.

## Cyber risk

Cyber risk continues to be a threat in a rapidly changing technological and regulatory environment as the magnitude of the costs of cybercrime vary depending on the nature of the attack. AMP is committed to continually enhancing its cyber security capability and control posture to align with the risk associated with increased cybercrime activity.

AMP is investing in building a capability that is both sustainable and commensurate to the threats faced, including having launched a new Cyber Defence Centre and building an enduring team to further uplift its cyber defences to mitigate malicious threats and cybercrime activities. AMP has demonstrated maturity uplifts against the National Institute of Standards and Technology Cyber Security Framework, an adopted industry best-practice framework. Cyber risk will retain its position as a key risk as AMP continues to mature and evolve its cyber security operating model. This will assist in preventing, detecting and responding to cyber incidents, in order to protect AMP's assets and business operations.

If any of these procedures prove ineffective or inadequate, or are otherwise not appropriately implemented, this could have a material adverse impact on the overall financial position and performance of AMP.