AMP Bank Limited

ABN 15 081 596 009

Financial Report for the year ended 31 December 2014

AMP Bank Limited
ABN 15 081 596 009
FULL YEAR FINANCIAL REPORT
31 December 2014

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Registered Office:
33 Alfred Street
Sydney NSW 2000 Australia

AMP Bank Limited, a company limited by shares, is incorporated and domiciled in Australia.

AMP Bank Limited

Directors' Report

for the year ended 31 December 2014

The directors of AMP Bank Limited (the Company) present their report on the consolidated entity (the Bank) consisting of AMP Bank Limited and the entities it controlled for the financial year ended 31 December 2014.

Directors

The directors of the Company during the year ended 31 December 2014 and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise.

Paul Fegan (appointed as Chairman and director, 1 March 2014)
David Morris (resigned as Chairman, 1 March 2014, resigned as director 12 November 2014)
Michael Lawrence (Managing Director)
Patricia Akopiantz
Richard Allert (resigned 8 May 2014)
Robert Caprioli (appointed 1 January 2014)
Gordon Lefevre (appointed 1 March 2014)
Joe Pollard (appointed 12 August 2014)
Collin Storrie (resigned 28 February 2014)
Trudy Vonhoff

Principal activities

AMP Bank Limited is an Australian retail bank offering residential housing loans, deposits, transaction banking, and self-managed superannuation fund products with around 100,000 customers. It also has a portfolio of practice finance loans. The Bank distributes through brokers, AMP aligned advisers, and direct to retail customers via phone and internet banking.

Review of operations and results

The result for the year ended 31 December 2014 was a consolidated net profit after tax of $92m (2013: $82m).

Dividends

During 2014, the Bank declared and paid $20m (2013: nil) dividends to its immediate parent company, AMP Financial Investment Group Holdings Limited. Details of dividends paid and declared during the year are disclosed in note 15 of the financial report.

Significant changes in the state of affairs

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

Environmental regulations

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

Events occurring after the reporting date

On 11 February 2015, AMP Bank Limited announced a final dividend of $12.75m.

With the exception of the above, the directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected or may significantly affect the consolidated entity's operations in future years, the results of those operations in future years, or its state of affairs in future years which is not already reflected in this report.

Likely developments

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

AMP Bank Limited

Directors' Report (continued)

for the year ended 31 December 2014

Indemnification and insurance of directors and officers

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

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

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

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

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

Rounding and parent entity information

In accordance with the Australian Securities and Investments Commission (ASIC) Class Order 98/100, amounts in this directors' report and the accompanying financial report have been rounded to the nearest million Australian dollars, unless stated otherwise. The Company has applied Class Order 10/654 and therefore continues to show both parent and consolidated financial statements and notes to the financial statements.

Auditor's independence

The directors have obtained an independence declaration from the Company's auditor, Ernst & Young, a copy of which is attached to this report and forms part of the directors' report for the year ended 31 December 2014.

Signed in accordance with a resolution of the directors.

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Director PAUL FEGAN

Sydney, 29 March 2015

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

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Auditor's Independence Declaration to the Directors of AMP Bank Limited

In relation to our audit of the financial report of AMP Bank Limited for the financial year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
29 March 2015

AMP Bank Limited

Income statement

for the year ended 31 December 2014

		Consolidated		Company	
		Dec 2014	Dec 2013	Dec 2014	Dec 2013
	Note	$m	$m	$m	$m
Interest income	3	801	788	793	778
Interest expense	3	(616)	(624)	(617)	(620)
Net interest income		**185**	**164**	**176**	**158**
Fee and commission income		11	11	18	17
Other income	4	2	-	2	1
Impairment expenses		(2)	(2)	(2)	(2)
Operating expenses	4	(65)	(56)	(63)	(55)
Income tax expense	5	(39)	(35)	(39)	(36)
Profit for the year		**92**	**82**	**92**	**83**

AMP Bank Limited

Statement of comprehensive income

for the year ended 31 December 2014

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Profit	92	82	92	83
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges (1)				
- losses in fair value of cash flow hedges	(27)	(8)	(27)	(8)
- income tax credit	8	2	8	2
- net gains transferred from profit for the year	22	25	22	24
- transferred from profit for the year - income tax expense	(6)	(7)	(6)	(7)
Other comprehensive income for the year	(3)	12	(3)	11
Total comprehensive income	**89**	**94**	**89**	**94**

Footnote:

(1) Cash flow hedge movements relate to interest rate swaps used to manage the Bank's interest rate risk on its housing loans and deposits portfolio.

AMP Bank Limited

Statement of financial position

As at 31 December 2014

		Consolidated		Company	
		Dec 2014	Dec 2013	Dec 2014	Dec 2013
	Note	$m	$m	$m	$m
Assets					
Cash and cash equivalents	20(a)	2	16	2	16
Due from banks	20(a)	422	372	353	307
Derivative financial assets		34	31	37	31
Debt securities	6	2,334	2,797	2,334	2,797
Loans and advances	7	14,569	13,391	14,569	13,391
Other assets	9	7	6	7	6
Deferred tax assets	5	28	28	29	25
Total assets		**17,396**	**16,641**	**17,331**	**16,573**
Liabilities					
Due to banks		698	405	698	405
Derivative financial liabilities		40	45	40	25
Deposits and other borrowings	10	9,977	9,866	9,977	9,866
Intercompany tax payable to head entity		24	21	24	21
Debt securities on issue	11	5,870	5,578	1,658	1,714
Provisions	12	4	3	4	3
Due to controlled entities		-	-	3,977	3,599
Subordinated debt	13	150	150	150	150
Other liabilities	14	8	7	178	228
Deferred tax liabilities	5	-	10	-	6
Total liabilities		**16,771**	**16,085**	**16,706**	**16,017**
Net assets		**625**	**556**	**625**	**556**
Equity					
Contributed equity	16	444	444	444	444
Reserve		(12)	(9)	(12)	(9)
Retained earnings		193	121	193	121
Total equity		**625**	**556**	**625**	**556**

AMP Bank Limited

Statement of changes in equity

for the year ended 31 December 2014

	Equity attributable to shareholders of AMP Bank Limited			
	Contributed equity $m	Cash flow hedge reserve [1] $m	Retained earnings $m	Total equity $m
Consolidated				
31 Dec 2014				
Balance at the beginning of the year	444	(9)	121	556
Profit	-	-	92	92
Other comprehensive income	-	(3)	-	(3)
Total comprehensive income	-	(3)	92	89
Dividends paid	-	-	(20)	(20)
Balance at the end of the year	**444**	**(12)**	**193**	**625**
Consolidated				
31 Dec 2013				
Balance at the beginning of the year	444	(21)	39	462
Profit	-	-	82	82
Other comprehensive income	-	12	-	12
Total comprehensive income	-	12	82	94
Balance at the end of the year	**444**	**(9)**	**121**	**556**

	Contributed equity $m	Cash flow hedge reserve [1] $m	Retained earnings $m	Total equity $m
Company				
31 Dec 2014				
Balance at the beginning of the year	444	(9)	121	556
Profit	-	-	92	92
Other comprehensive income	-	(3)	-	(3)
Total comprehensive income	-	(3)	92	89
Dividends paid	-	-	(20)	(20)
Balance at the end of the year	**444**	**(12)**	**193**	**625**
Company				
31 Dec 2013				
Balance at the beginning of the year	444	(20)	38	462
Profit	-	-	83	83
Other comprehensive income	-	11	-	11
Total comprehensive income	-	11	83	94
Balance at the end of the year	**444**	**(9)**	**121**	**556**

Footnotes:

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

AMP Bank Limited

Statement of cash flows

for the year ended 31 December 2014

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		Consolidated		Company	
		Dec 2014	Dec 2013	Dec 2014	Dec 2013
	Note	$m	$m	$m	$m
Cash flows from (used in) operating activities					
Interest received		792	782	783	775
Interest paid		(606)	(660)	(611)	(654)
Fees and commissions received		11	11	18	17
Cash payments in the course of operations		(64)	(56)	(57)	(55)
Income tax paid		(44)	(43)	(44)	(43)
Cash flows from operating activities before changes in operating assets and liabilities		**89**	**34**	**89**	**40**
Changes in operating assets and liabilities:					
Net funds advanced to customers for loans and advances		(1,167)	(940)	(1,167)	(940)
Net funds advanced to banks		293	229	293	229
Net acceptance from deposits and other borrowings		102	915	102	915
Decrease in interest receivables for derivatives		1	1	1	-
Increase in interest payables for derivatives		-	-	1	-
Net increase (decrease) in loans due to controlled entities		-	-	378	84
Net decrease (increase) in other assets		(2)	-	(2)	-
Net increase (decrease) in other liabilities		1	(2)	(50)	27
Net cash (used in)/provided by operating activities	20(b)	**(683)**	**237**	**(355)**	**355**
Cash flows from investing activities					
Purchase of debt securities		(4,191)	(5,511)	(4,191)	(5,511)
Proceeds from maturity of debt securities		4,654	4,550	4,654	4,550
Net cash provided by/(used in) by investing activities		**463**	**(961)**	**463**	**(961)**
Cash flows from financing activities					
Repayment of issue of subodinated debt		-	(100)	-	(100)
Proceeds from issue of debt securities on issue		2,500	2,151	500	1,050
Repayment of debt securities on issue		(2,224)	(1,234)	(556)	(250)
Dividends paid		(20)	-	(20)	-
Net cash provided by/(used in) by financing activities		**256**	**817**	**(76)**	**700**
Net increase (decrease) in cash and cash equivalents		36	93	32	94
Cash and cash equivalents at the beginning of the year		388	295	323	229
Cash and cash equivalents at the end of the year	20(a)	**424**	**388**	**355**	**323**

1. Basis of preparation and summary of significant accounting policies

The consolidated economic entity (the Bank) comprises AMP Bank Limited (the Company), an unlisted public company limited by shares, incorporated and domiciled in Australia, and all entities that it controlled during the period and at the reporting date. The parent entity of AMP Bank Limited is AMP Financial Investment Group Holdings Limited. The ultimate parent entity is AMP Limited. The financial report of the consolidated entity (the Bank) for the year ended 31 December 2014 was authorised for issue on 29 March 2015.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The Bank is a for-profit entity for the purpose of preparing financial statements. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

The financial report has been prepared on a historical cost basis except for those items which have been measured at their fair value. The carrying values of recognised assets and liabilities that are hedged using derivatives classified as fair value hedges are adjusted for any changes in fair values attributable to the risks being hedged.

Changes in accounting policy

The following Australian Accounting Standards amendments have become mandatory for adoption from 1 January 2014, but have not had any material effect on the financial position or performance of the Bank:

- AASB 2011-4 Amendments to Australian Accounting Standard to Remove Individual Key Management Personnel Disclosure Requirements. This standard amends 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. These disclosures now form part of the remuneration report requirements under the Corporations Act 2001. This standard is applied retrospectively.
- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities. These amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’. Where financial assets and financial liabilities meet the criteria to offset, the net amount is presented in the Statement of financial position. This standard is applied retrospectively.
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets. This standard makes amendments to AASB 136 Impairment of Assets to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard is applied retrospectively.
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting. These amendments to AASB 139 Financial Instruments: Recognition and Measurement permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws and regulations. This standard is applied retrospectively.
- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments. Parts A and B of this standard are applicable to the Bank for the year ended 31 December 2014. Part A of this standard updates references to the Framework for the Preparation and Presentation of Financial Statements, while Part B makes amendments to particular Australian accounting standards to delete references to AASB 1031 Materiality and makes minor editorial amendments to various standards. This standard is applied retrospectively.

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

Australian Accounting Standards issued but not yet effective

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

- AASB 9 Financial Instruments. This standard makes changes to the way financial assets are classified for the purpose of determining their measurement basis and also to the determination of the credit provision. This standard also makes changes to hedge accounting requirements and disclosures. This standard is mandatory for adoption by the Bank for the year ending 31 December 2018. The financial impact to the Bank of adopting AASB 9 Financial Instruments has not yet been quantified.

b) Principles of consolidation

The financial statements consolidate the financial information of controlled entities. An entity is controlled when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial information for controlled entities is prepared for the same reporting date as the parent entity, using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to ensure conformity with the group's accounting policies.

Consolidation principles require the total amounts of each underlying asset, liability, income and expense of the controlled entities to be recognised in the consolidated financial statements.

Controlled entities acquired are accounted for using the acquisition method of accounting. Information from the financial statements of controlled entities is included from the date the Company obtains control until such time as control ceases. Where the Company ceases to control an entity, the consolidated financial statements include the results for the part of the reporting period during which the Company had control. All inter-company balances and transactions are eliminated in full, including unrealised profits arising from intra-group transactions.

Securitisation vehicles
The Company sells housing loans to securitisation trusts (also referred to as special purpose entities) through its loan securitisation program. These securitisation trusts are controlled by the Company and are therefore consolidated (note 1(p)).

c) Cash and cash equivalents

For the purpose of Statement of financial position, cash and cash equivalents consist of cash and balances with central banks.

For the purpose of the Statement of cash flows, cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments (rather than for investment or other purposes) and include deposits with central banks, short-term money market deposits and settlement and clearing accounts due from other banks.

d) Due from banks

Due from banks include short term money market deposits with a maturity date of less than three months, collateral placed and settlement account balances with other banks. Balances are initially recognised at fair value including any directly attributable transaction costs. They are subsequently valued at amortised cost using the effective interest method.

e) Financial assets

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

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

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

Loans and advances are recognised less a provision for impairment (note 1(i)). The amounts required to bring the provisions for impairment to their assessed levels are recognised in the Income statement each reporting period.

f) Recognition and derecognition of financial assets and financial liabilities

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

The Company transfers assets to securitisation trusts but retains substantially all the risks and rewards of ownership of the assets. Where substantially all of the risks and rewards are retained, the transferred assets continue to be recognised on the Company's Statement of financial position.

g) Investments in controlled entities

Investments by the Company in controlled entities are measured at cost less any accumulated impairment loss. The aggregated amount of these investments is less than $1m. Further detail is provided in Note 21.

h) Other assets

Other assets are initially recognised at fair value and subsequently measured at amortised cost. Other assets comprise interest receivables on financial derivatives, prepayments and sundry receivables.

i) Impairment of assets

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

Loans and advances
The Bank assesses at each reporting date whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short term balances are not discounted.

Loans and advances are presented net of provisions for loan impairment. The Bank has individual and collective impairment loan loss provisions. Individual impairment loan loss provisions are made when there is clear evidence that the Bank will suffer a loss with little chance of recovery and the amount of the loss is measurable.

All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment.

Collective impairment loan loss provision
The collective impairment loan loss provision methodology is a statistical based model that reduces subjectivity of the provisioning process and makes the provision reflective of historical loss performance.

The model utilises historical losses incurred by the Bank and external data sources to develop a series of probability of default and loss given default factors that can be applied to loans and advances in arrears.

Future cash flows of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted based on current observable data. In addition, the Bank uses its experience and judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

i) Impairment of assets (continued)

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the Income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the Income statement. If the originally contracted terms of loans and advances are amended, the amounts are classified as renegotiated loans. Such amounts accrue interest as long as the loan performs in accordance with the renegotiated terms.

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

Impairment is recognised in the Income statement, measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

j) Taxes

Tax consolidation
AMP Limited, AMP Bank Limited and other wholly owned controlled entities of AMP Limited which are Australia domiciled companies comprise a tax-consolidated group of which AMP Limited is the head entity. The implementation date for the tax-consolidated group was 30 June 2003.

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

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

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

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

Income tax expense
Income tax expense is the tax payable on taxable income for the current period based on the income tax rate for each jurisdiction, adjusted by 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 deferred tax assets and liabilities arising from changes in tax rates or the manner in which these balances are expected to be realised.

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

j) Taxes (continued)

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

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

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

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

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

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Goods and services tax (GST)
All income, 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 relevant 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 a receivable or payable in the Statement of financial position.

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

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

k) Financial liabilities

Financial liabilities are initially recognised at fair value including directly attributable incremental transaction costs. After initial recognition, financial liabilities are subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption amount is recognised in the Income statement over the life of the financial liability using the effective interest method.

Financial liabilities comprise the following:

Due to banks
Due to banks includes money market deposits, certificate of deposits, collateral received and settlement account balance due to other banks.

Due to controlled entities
Loans from controlled entities comprise interest bearing loans.

Deposits and other borrowings
Deposits and other borrowings comprise deposits from related parties, certificates of deposit, term deposits and savings deposits from retail client and wholesale money market counterparties.

Debt securities on issue
The Bank issues term debt to wholesale debt market counterparties. Debt issued includes short and long term borrowings, medium term notes and floating rate notes.

In respect of debt securities on issue, premiums, discounts and associated issue expenses are recognised using the effective interest method through the Income statement from the date of issue to ensure that securities attain their redemption values by maturity date.

Debt securities on issue are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income statement over the period of the contract using the effective interest rate method. It is the Bank's policy to hedge currency and interest rate risk arising on debt securities on issue. When fair value hedge accounting is applied to debt securities on issue, the carrying value of debt securities on issue are adjusted for changes in fair value of the hedged risk for the period that the fair value hedge relationship remains effective.

Subordinated debt
The Company issues subordinated term debt with terms and conditions that qualify the debt issue as Tier 2 capital as defined by APRA for capital adequacy purposes.

Other liabilities and payables
Other liabilities mainly include payables to controlled entities and related parties. These are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount approximates fair value.

l) Provisions

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

Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income statement net of any reimbursement.

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

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

l) Provisions (continued)

Employee entitlements
Liabilities arising in respect of salaries and wages, annual leave and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, discount rates are determined with reference to market yields at the end of the reporting period on high quality corporate bonds or, in countries where there is no deep market in such bonds, using market yields at the end of the period on government bonds.

m) Derivative financial assets, derivative financial liabilities and hedging

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

Derivatives are initially recognised at fair value exclusive of any transaction costs on the date on which the derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. All derivatives are recognised as assets when fair value is positive and as liabilities when their fair value is negative.

The method of recognising the movement in fair value depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank designates a hedge as either:
- a hedge of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- a hedge of a highly probable forecast transaction (cash flow hedge).

The Bank documents the relationship between hedging instruments and hedged items at inception of the transaction, as well as its risk management and strategy for undertaking various hedge transactions. The Bank also documents its assessment of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. This assessment is carried out at both hedge inception and on an ongoing basis.

Accounting for hedges
(i) Fair value hedges:
  - to the extent that a hedge is effective, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the Income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk;
  - the gain or loss relating to any ineffective portion of a hedge is recognised immediately in the Income statement; and
  - if a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the Income statement over the period until the forecast transaction occurs.

(ii) Cash flow hedges:
  - the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through Other comprehensive income in the Cash flow hedge reserve in equity. The balance of the Cash flow hedge reserve in relation to each particular hedge is transferred to the Income statement in the period when the hedged item affects profit or loss;
  - the gain or loss relating to any ineffective portion of a hedge is recognised immediately in the Income statement
  - hedge accounting is discontinued when a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income statement; and
  - when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income statement.

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

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

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

n) Offsetting financial instruments

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

o) Contributed equity

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

p) Securitisation

Through its loan securitisation program, the Bank packages and sells housing loans as securities to investors through a series of securitisation trusts. The Bank is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Bank is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Bank's balance sheet, and a liability is recognised for the proceeds of the funding transaction.

q) Foreign currency transactions

Functional and presentation currency
The consolidated financial report is presented in Australian dollars (the presentation currency). Items included in the financial statements for each of the Bank entities are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The functional currency of the parent entity is Australian dollars.

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

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

r) Interest income and expense

Interest income and expense for all financial instruments measured at amortised cost is recognised in the Income statement using the effective interest method.

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

s) Fees and commission income

Fees and commissions income includes servicing fees from housing loans and deposit accounts and are generally recognised as earned.

t) Other income

Other income includes gains (losses) from changes in the fair value of financial instruments.

u) Operating expenses

Operating expenses are expensed as incurred.

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

v) Defined contribution funds

The Bank pays contributions to superannuation funds when they become due. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised in the Income statement as an expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Significant accounting judgements, estimates and assumptions

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

(a) Consolidation

Entities are included within the consolidated financial statements of the Bank where the Bank has control over the entities. Control arises from exposure, or rights, to variable returns from involvement with an entity, where the Bank has the ability to affect those returns through its power over the entity. Judgement is applied by management in assessing whether control exists.

Judgement is applied in determining the relevant activities of each entity and determining whether the Bank has power over these activities. This involves assessment of the purpose and design of the entity, identification of the activities which significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights, contractual arrangements with the entity or other parties, and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Consideration is also given to the practical ability of other parties to exercise their rights.

Judgement is also applied in identifying the variable returns of each entity and assessing the Bank's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

(b) Fair value of investments in financial assets and financial liabilities

The Bank measures investments in some financial assets and some financial liabilities at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions. Further detail on the determination of fair values of financial instruments is set out in Note 22.

2. Significant accounting judgements, estimates and assumptions (continued)

(c) Provisions

(i) Provisions for impairment

The accounting policy, as explained in Note 1(i) relating to impairment of loans and advances, requires the Bank to assess impairment at least at each reporting date. The impairment provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at reporting date. The Bank uses its judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of judgements and reasonable estimates is considered by management to be an essential part of the process for calculating impairment provisions. Note 7 sets out further information on provisions for impairment.

(ii) Other provisions

A provision is recognised for items where the Bank has a present obligation arising from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is measured as the best estimate of the expenditure required to settle the present obligation. Management applies judgement in assessing whether a particular item satisfies the above criteria and in determining the best estimate. Note 12 sets out further information on provisions.

(d) Interest income and expenses

As noted in Note 1 (r), interest income and expense for all financial instruments measured at amortised cost is recognised in the Income Statement using the EIR method which depends on assumptions used for estimating the expected life of financial instruments for the calculation of interest income and expense. Management applies judgement in determining the expected life with regard to both historical performance and forward looking expectations.

3. Net interest income

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Interest income				
Due from banks	10	11	7	9
Derivatives	14	17	9	9
Debt securities	83	72	83	72
Loans and advances	694	688	694	688
Total interest income	**801**	**788**	**793**	**778**
Interest expense				
Due to banks	12	12	12	12
Derivatives	35	45	30	38
Deposits and other borrowings	340	347	340	347
Debt securities on issue	220	206	71	63
Due to controlled entities	-	-	155	146
Subordinated debt	9	14	9	14
Total interest expense	**616**	**624**	**617**	**620**
Net interest income	**185**	**164**	**176**	**158**

4. Other income and operating expenses

	Consolidated		Company	
	Dec 2014 $m	Dec 2013 $m	Dec 2014 $m	Dec 2013 $m
Other income				
Gains (losses) on financial instruments measured at fair value				
Derivatives [1]	20	42	2	-
Liabilities designated in hedge relationships	(18)	(42)	-	1
Total other income	**2**	**-**	**2**	**1**

Footnote:

(1) Includes fair value movements on derivatives entered into for management of interest rate and foreign exchange risk on funding instruments and economic hedges on funding instruments that do not meet the requirements for hedge accounting.

	Consolidated		Company	
	Dec 2014 $m	Dec 2013 $m	Dec 2014 $m	Dec 2013 $m
Operating expenses				
Staff and related expenses				
Wages and salaries	15	13	15	13
Contributions to defined contribution funds	2	1	2	1
Other operating expenses				
Information technology and communication	8	8	8	8
Advertising and marketing expenses	2	2	2	2
Legal and regulatory charges	1	2	1	2
Service charges - related party	27	23	27	23
Other expenses	10	7	8	6
Total operating expenses	**65**	**56**	**63**	**55**

5. Income tax

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Analysis of income tax expense				
Current tax	(47)	(36)	(47)	(36)
Deferred tax	8	1	8	-
Income tax expense	**(39)**	**(35)**	**(39)**	**(36)**
Deferred income tax (expense) credit included in income tax expense comprises:				
(Decrease) increase in deferred tax assets	-	(20)	4	(11)
Decrease in deferred tax liabilities	10	16	6	6
Amount directly recognised in equity	(2)	5	(2)	5
Total deferred tax (expense) credit included in income tax	**8**	**1**	**8**	**-**
Relationship between income tax expense and accounting profit				
Profit before income tax per income statement	131	117	131	119
Prima facie income tax calculated at 30% (Dec 2013: 30%)	(39)	(35)	(39)	(36)
Income tax expense per income statement	**(39)**	**(35)**	**(39)**	**(36)**
Amounts recognised directly in equity				
Deferred tax related to items taken directly in equity during the year:				
Amount reported in other comprehensive income on revaluation of cash flow hedges reserve	(2)	5	(2)	5
Analysis of deferred tax assets				
Fair value of derivatives	24	24	17	7
Trust distribution relating to fair value movements	-	-	8	14
Provisions	3	3	3	3
Other	1	1	1	1
Total deferred tax assets	**28**	**28**	**29**	**25**
Analysis of deferred tax liabilities				
Fair value of derivatives	-	1	-	3
Fair value of debt securities on issue	-	7	-	1
Other	-	2	-	2
Total deferred tax liabilities	**-**	**10**	**-**	**6**

6. Debt securities

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Debt securities - held to maturity	2,334	2,797	2,334	2,797
Total debt securities - held to maturity [1]	**2,334**	**2,797**	**2,334**	**2,797**

Footnote:

(1) $1,540m (2013: $1,108m) is expected to be received more than 12 months from the reporting date for the consolidated entity and the Company.

7. Loans and advances

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Housing loans and practice finance loans	14,501	13,320	14,501	13,320
Secured personal loans - Loans on policy	72	76	72	76
Total loans and advances [1] [2]	**14,573**	**13,396**	**14,573**	**13,396**
Less: Provisions for impairment				
Individual provision	(2)	(3)	(2)	(3)
Collective provision	(2)	(2)	(2)	(2)
	(4)	**(5)**	**(4)**	**(5)**
Total net loans and advances	**14,569**	**13,391**	**14,569**	**13,391**
Movement in provisions:				
Individual provision				
Balance at the beginning of the year	3	2	3	2
Increase in provision	1	2	1	2
Bad debts written off	(2)	(1)	(2)	(1)
Balance at the end of the year	**2**	**3**	**2**	**3**
Collective provision				
Balance at the beginning of the year	2	1	2	1
Increase in provision	1	1	1	1
Bad debts written off	(1)	-	(1)	-
Balance at the end of the year	**2**	**2**	**2**	**2**

Footnotes:

(1) During the year, housing loans totalling $1,955m (2013: $1,153m) were transferred from the Company to securitisation vehicles. At 31 December 2014, the Bank has outstanding externally securitised assets amounting to $4,024m (2013: $3,271m) after allowing for run-off of the initial assets securitised.

(2) $14,224m (2013: $13,128m) is expected to be received more than 12 months after the reporting date for the consolidated entity and the Company.

8. Asset quality

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Gross loans and advances:				
Neither past due nor impaired	14,125	12,945	14,125	12,945
Past-due loans but not impaired (1)	445	446	445	446
Impaired (2)	3	5	3	5
Total gross loans and advances	**14,573**	**13,396**	**14,573**	**13,396**

Footnotes:

(1) For detailed ageing analysis refer to Note 22 (f)(vi) Risk management and financial instruments information.
(2) Impaired assets are contractually at least 90 days in arrears with security insufficient to cover principal and arrears of interest.

9. Other assets

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Interest receivable from swaps	3	4	3	4
Prepayments	2	1	2	1
Other	2	1	2	1
Total other assets (1)	**7**	**6**	**7**	**6**

Footnote:
(1) All other assets for the consolidated entity and the Company are expected to be received within 12 months after the reporting date.

10. Deposits and other borrowings

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Retail deposits - amortised cost	6,250	5,374	6,250	5,374
Certificates of deposits - amortised cost	494	642	494	642
Euro commercial papers at fair value	207	385	207	385
Related parties deposits - amortised cost	3,026	3,465	3,026	3,465
Total deposits and other borrowings (1)	**9,977**	**9,866**	**9,977**	**9,866**

Footnote:
(1) $249m (2013: $338m) is expected to be settled more than 12 months from the reporting date for the consolidated entity and the Company.

11. Debt securities on issue

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Term borrowings - amortised cost	4,064	3,674	-	-
Term borrowings - effective fair value hedge relationship	148	190	-	-
Medium term notes - amortised cost	1,556	1,509	1,556	1,509
Medium term notes - effective fair value hedge relationship	102	205	102	205
Total debt securities on issue (1)	**5,870**	**5,578**	**1,658**	**1,714**

Footnote:
(1) $2,682m (2013: $4,216m) for the consolidated entity and $1,350m (2013: $1,150m) for the Company is expected to be settled more than 12 months from the reporting date.

12. Provisions

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Employee entitlements (1)	4	3	4	3
Total provisions	**4**	**3**	**4**	**3**
Reconciliation of movements in provisions				
Employee entitlements				
Balance at the beginning of the year	3	3	3	3
Additional provision made during the year	3	1	3	1
Provisions used during the year	(2)	(1)	(2)	(1)
Balance at the end of the year	**4**	**3**	**4**	**3**

Footnote:
(1) Provisions for employee entitlements are in respect of amounts accumulated as a result of employees rendering services up to the reporting date. These entitlements include salaries, wages, bonuses, annual leave, long service leave, but exclude share-based payments. $0.2m (2013: $0.2m) is expected to be settled more than 12 months from the reporting date for the consolidated entity and the Company.

13. Subordinated debt

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Floating rate unsecured subordinated notes (first call date 2017, maturity 2022)	150	150	150	150
Total subordinated debt (1)	**150**	**150**	**150**	**150**

Footnote:
(1) All subordinated debt for the consolidated entity and the Company is expected to be settled more than 12 months from the reporting date.

14. Other liabilities

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Interest payable from swaps	3	3	2	2
Payables to controlled entities and related parties	2	1	167	209
Other	3	3	9	17
Total other liabilities (1)	**8**	**7**	**178**	**228**

Footnote:

(1) All Other liabilities for the consolidated entity and the Company are expected to be paid within 12 months after the reporting date.

15. Dividends

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Final dividend paid				
2013 final dividend paid in 2014: $10m unfranked (2013: nil)	10	-	10	-
Interim dividend paid				
2014: $10m unfranked (2013: nil)	10	-	10	-
Total Dividends paid during the year	**20**	**-**	**20**	**-**
Final dividend proposed but not recognised				
2014: $13m unfranked (2013: $10m unfranked)	**13**	**10**	**13**	**10**

16. Contributed equity

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Total issued capital and contributed equity				
1,066,344,138 (December 2013: 1,066,344,138) ordinary shares fully paid	**444**	**444**	**444**	**444**

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.

17. Commitments

Commitments to provide credit facilities

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Bank	1,940	1,898	1,940	1,898
Securitisation vehicles	864	905	-	-
Total commitments to provide credit facilities [1]	**2,804**	**2,803**	**1,940**	**1,898**

Footnote:

(1) Commitments to provide credit facilities include all obligations on the Bank and securitisation vehicles to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash payments.

18. Auditor's remuneration

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$'000	$'000	$'000	$'000
Amounts received or due and receivable by Auditors of				
AMP Bank Limited for:				
Audit Services				
- Full year audit and half year review [1]	-	-	-	-
- Securitisation vehicles	163	145	-	-
Other audit services	192	163	192	163
Assurance related services	68	109	68	109
Total amounts received or due and receivable by Auditors of AMP Bank Limited	**423**	**417**	**260**	**272**

Footnote:

(1) The full year audit and half year review fee is paid on the Company's behalf by a related entity within the AMP Limited Group.

19. Related party disclosures

(a) Key management personnel details
AASB 124 *Related Party Disclosures* defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly including any directors (whether executive or otherwise) of that Company. The following directors of AMP Bank Limited held office during the year:

Name	Date of changes to the board during the current or prior reporting periods
Paul Fegan	Appointed as Chairman and director, 1 March 2014
David Morris	Resigned as Chairman, 1 March 2014, resigned as director 12 November 2014
Michael Lawrence	Managing Director
Patricia Akopiantz	
Richard Allert	Resigned 8 May 2014
Robert Caprioli	Appointed 1 January 2014
Gordon Lefevre	Appointed 1 March 2014
Joe Pollard	Appointed 12 August 2014
Colin Storrie	Resigned 28 February 2014
Trudy Vonhoff	

(b) Transactions with key management personnel
During the year, key management personnel and their personally related entities have entered into transactions with the Bank. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect the Bank would have adopted if dealing at arm's length with an unrelated individual. The transactions include normal personal banking with the Bank.

Information about such transactions does not have the potential to affect adversely decisions about the allocation of scarce resources made by users of the financial statements, or the discharge of accountability by the specified executives or specified directors. The following table provides details of loans made by the Bank to key management personnel of the entity:

	Balance at 1 Jan 14	Written off	Net advances (repayments)	Balance at 31 Dec 14	Interest charged	Interest not charged	Number in group
	$'000	$'000	$'000	$'000	$'000	$'000	
Key management personnel and their related parties (1)	1,515	-	1,129	2,644	101	-	1

Footnote:

(1) All loans to key management personnel and their related parties are provided by AMP Bank and are on similar terms and conditions generally available to other employees within the group. No guarantees are given or received in relation to these loans.

19. Related party disclosures (continued)

(c) Key management personnel compensation

The following table provides aggregate details of the compensation of key management personnel of the Company. The remuneration is paid by a related company, AMP Services Limited.

Non-executive directors[1]	Short-term benefits $'000	Post employment benefits $'000	Share-based payments $'000	Other long-term benefits[3] $'000	Termination benefits $'000	Total $'000
2014	**837**	**79**	**-**	**-**	**-**	**916**
2013[2]	1,236	25		-	-	1,261
Key management personnel excluding non-executive directors						
2014	**3,203**	**75**	**2,283**	**29**	**-**	**5,590**
2013[2]	2,941	74	2,150	38	-	5,203
All key management personnel						
2014	**4,040**	**154**	**2,283**	**29**	**-**	**6,506**
2013[2]	4,177	99	2,150	38	-	**6,464**

1 Non-executive directors are not entitled to short-term incentive payments. Short-term benefits only include fees and allowance

2 This represents the amount paid to those individuals considered key management personnel and disclosed as such in 2013 financial report.

3 Presentation has been enhanced to include long service leave accruals.

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

(i) AMP Services Limited provided the Bank with certain administrative and management services including distribution, treasury, payroll, property, computing facilities and project costs, charging the bank $27m for this service (FY13: $23m). The services were provided in the normal course of business and on normal commercial terms and conditions or on a full cost recovery basis.

The Bank provides AMP Limited and related entities transactional banking services on normal commercial terms.

On 14 May 1998 AMP Limited entered into a deed with the Company to provide certain capital and liquidity support to the Company as required.

(ii) The Bank is a member of the AMP Limited tax consolidated group and has entered into a tax sharing agreement and tax funding agreement with AMP Limited.

(iii) AMP Group Holdings Limited provides the Company with an unconditional and irrevocable guarantee. The Company pays a group guarantee fee of $1m each year to AMP Group Holdings Limited.

(iv) AMP Life Limited provides the Company with intercompany loans which are sourced from call deposit and term deposit facilities by superannuation customers of AMP Life Limited. As at 31 December 2014, the balance including interest is $2,426m (Dec 2013: $2,784m). This loan is provided on normal commercial terms. AMP Life also provided the Company with a short term loan with interest equal to 3 month BBSW plus 50 basis points. As at 31 December 2014, the loan payable (including interest) is $323m (Dec 2013: $313m). The interest expense to AMP Life Limited for FY14 was $90m (FY13: $118m). The commissions paid to AMP aligned advisers for FY14 was $11m (FY13:$ 9m).

Loans on policy (secured personal loans) are loans secured against the surrender value of AMP life insurance policies.

(v) As at 31 December 2014 AMP Capital Investors has provided the Bank with $277m (Dec 2013: $368m) short term deposits. The Company pays market rates on the short term deposits. The interest expense to AMP Capital Investors for FY14 was $10m (FY13: $10m).

(vi) The Company has amounts due to controlled securitisation trusts of $3,977m as at 31 December 2014 (Dec 2013: $3,599m).

(vii) The full year audit and half year review fee is paid on the Bank’s behalf by a controlled entity within the AMP Limited Group.

20. Notes to the statement of cash flows

a) Reconciliation of cash and cash equivalents:

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Assets				
Cash and cash equivalents	2	16	2	16
Due from banks	422	372	353	307
Balance at the end of the year	**424**	**388**	**355**	**323**

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

	Consolidated		Company	
	Dec 2014	Dec 2013	Dec 2014	Dec 2013
	$m	$m	$m	$m
Net profit after tax	92	82	92	83
Add/(Deduct) non cash items:				
Unrealised fair value movements	(2)	-	(2)	(1)
Impairment expenses	2	2	2	2
Amortisation expenses	11	9	11	9
Increase in interest receivable	-	(22)	(1)	(21)
Increase (decrease) in interest payable	(8)	(35)	(7)	(31)
Decrease (increase) in deferred tax assets	-	20	(4)	11
Decrease in deferred tax liabilities	(10)	(16)	(6)	(6)
Increase (decrease) in intercompany tax payable to head entity	3	(6)	3	(6)
Increase in provisions	1	-	1	-
Operating cash flow items not included in profit	(772)	203	(444)	315
Net cash (used in)/provided by operating activities	**(683)**	**237**	**(355)**	**355**
(c) Financing arrangements				
- Available	12,054	10,825	12,054	10,825
- Used	(1,921)	(2,085)	(1,921)	(2,085)
- Unused	**10,133**	**8,740**	**10,133**	**8,740**

21. Group controlled entity holdings

Details of controlled entities are as follows:

Name of entity	Country of incorporation	Share type	Footnote	% HOLDINGS Dec 2014	Dec 2013
AMP Lending Services Limited	Australia	Ordinary		100	100
Priority One Agency Services Limited	Australia	Ordinary		100	100
Progress Warehouse Trust No1	Australia	-	(1)	99	99
Progress Warehouse Trust No3	Australia	-	(1)	90	90
Progress 2005-2 Trust	Australia	-	(1)(2)	-	90
Progress 2006-1 Trust	Australia	-	(1)(3)	90	90
Progress 2007-1G Trust	Australia	-	(1)	90	90
Progress 2008-1R Trust	Australia	-	(1)	100	100
Progress 2009-1Trust	Australia	-	(1)	90	90
Progress 2010-1Trust	Australia	-	(1)	90	90
Progress 2011-1Trust	Australia	-	(1)	90	90
Progress 2012-1Trust	Australia	-	(1)	100	100
Progress 2012-2Trust	Australia	-	(1)	100	100
Progress 2013-1Trust	Australia	-	(1)	90	90
Progress 2014-1Trust	Australia	-	(1)(4)	90	-
Progress 2014-2Trust	Australia	-	(1)(5)	90	-

Footnotes:

(1) Units issued by securitisation trusts include residual capital units and residual income units. The beneficial interest held by holders of the residual capital units is limited to the trust and each asset of the trust. Residual capital units have no right to receive distributions in respect of the trust other than the right to receive on the termination of the trust, the issue price paid for the residual capital unit and the entire beneficial interest of the trust subject to the right of the holders of residual income units. The beneficial interest held by the holder of a residual income unit is limited to the right to receive distributions. A residual income unit must not be issued to any person unless that person is also then the holder of a residual capital unit. The Company holds 100% of the residual income units.

(2) Trust was wound up during the year.

(3) Trust is in the process of winding up.

(4) Trust established in May 2014.

(5) Trust established in November 2014.

22. Risk management and financial instruments information

Financial Risk Management

Financial Risk Management (FRM) at AMP Bank is an integral part of the AMP Bank enterprise risk management framework. Up until 12 November 2014, the Board Audit Committee, supported by the Bank Asset and Liability (ALCO) and Credit Committees (CC) was responsible for ensuring financial risks were appropriately managed. From 12 November 2014 the existing risk management responsibilities of the BAC were transferred to the new Board Risk Committee (BRC).

a) Board Governance

The Bank's Board has ultimate responsibility for risk management and governance, including ensuring that an appropriate risk framework is in place and is operating effectively. The Bank Board endorses the Bank's Risk Management Strategy which includes the AMP Group's FRM Framework, its sub-policies, the shareholder capital investment strategy, capital and financing plans and has extended its FRM framework to include Bank Board approved policies to address Bank specific financial risks and related regulatory prudential requirements.

Up until 12 November 2014, the BAC ensured the existence of effective FRM policies and procedures, and was responsible for oversight of the execution of the FRM Framework. The BAC oversaw and monitored the businesses effectiveness in managing its key risks and internal controls by reviewing quarterly risk reports, including any relevant action plans to improve the control environment. Internal Audit reviews the design and operational effectiveness of the FRM Framework as part of its ongoing audit cycle.

The Bank's Board approved the establishment of BRC with effect from 12 November 2014. The primary objective of the BRC is to assist the Board by providing objective non-executive oversight of the implementation and operation of AMPs enterprise risk management framework. The Bank BRC provides a sound, consistent approach to governance across the Bank, championing good risk management practices and behaviours. With the establishment of the BRC the existing risk management responsibilities of the Bank BAC have been transferred to the new BRC. From 12 November 2014, the Bank BAC primary focus is on financial soundness, company performance and capital adequacy, while the BRC is responsible for the oversight of risk management, risk exposures and the emerging environment.

b) Executive Governance

AMP Group Treasury (Group Treasury) - is responsible, under an internal outsourcing arrangement with the Bank, for the execution of the AMP Limited Group FRM Framework, as relevant to financial markets, capital, and financing plans in compliance with Board approved targets and limits. The Bank's Credit function has similar responsibilities with respect to housing and practice finance lending. The ALCO oversees risks associated with participation in financial markets and CC for residential housing loans and practice finance lending.

Bank Asset & Liability Committee (Bank ALCO) - ensures the effective management and governance of financial risks (including market, wholesale credit, liquidity and funding / securitisation risks but excluding retail credit risk) for the Bank. Bank ALCO is responsible for the effective management and governance of risks relating to asset and liability management within the Bank, including the setting and managing relevant risk limits for the Bank and monitoring compliance with relevant prudential standards.

Credit Committee (CC) - ensures the management of retail credit risk arising primarily from housing and practice finance lending within Australia. CC approves credit policies, processes and delegations which are consistent with Bank strategy and oversees adherence to policy; monitors the performance of third party suppliers in the credit process (mortgage insurers, credit bureaux, solicitors and valuers); approves arrears management policies and recommends specifics and collective impairment methodologies to BAC; reviews and approves stress testing scenarios on the Bank's loan portfolios to understand the implications on profit and capital; and monitors emerging material that can impact the Bank's credit risk.

c) Risk and mitigation

Financial risks arising in the Bank include market risk (principally non traded interest rate risks); liquidity and refinancing risk; and credit risk. The Bank extends this to include loan default risk arising from housing and practice finance lending. These risks are managed according to the Enterprise Risk Management Policy and individual policies for each risk category.

This financial risk management includes the use of derivative financial instruments such as interest rate swaps, forward rate agreements, futures and options to hedge risk exposures arising from changes in interest rates. The Bank also uses Lenders Mortgage Insurance (LMI) arrangements to limit credit risk exposure.

22. Risk management and financial instruments information (continued)

d) 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 property prices. Market risk in the Bank arises from interest bearing investments and debt.

The paragraphs below include a sensitivity analysis table showing how the profit after tax and equity would have been impacted by changes in market risk variables including interest rate risk and currency risk as defined in AASB7 *Financial Instruments: Disclosures*. They show the direct impact on the profit after tax or equity of a reasonably possible change in factors which affect the carrying value of financial assets and financial liabilities held at the end of the reporting period.

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

(i) Interest rate risk
Interest rate risk is the risk of an impact on the Bank's profit after tax and equity from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates.

Interest rate risk arises in the Bank from mismatches of repricing terms (for example a three-year fixed rate loan funded with a 90 day term deposit – term risk) and variable rate short-term repricing bases (basis risk). The Bank uses natural offsets, interest-rate swaps and basis swaps to hedge the mismatches within exposure limits. Group Treasury manages the interest rate exposure in the Bank by maintaining a position, which is generally neutral, within the limits delegated and approved by the Bank Board.

The Bank Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. Interest rate risk is governed by the Bank's Risk Management System Description (RMSD) approved by the AMP Bank Board and separately reported to Bank ALCO.

Interest rate risk sensitivity analysis
The analysis demonstrates the impact of a 100 basis point change in Australian interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on profit after tax reflects underlying hedging and portfolio offset as well as the Bank's ability to re-price certain financial instruments.The impact on equity includes both the impact on profit after tax as well as impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting. A sensitivity level of 100 basis points is determined considering the range of interest rates applicable to interest bearing financial assets and financial liabilities in the Bank.

		2014		2013	
	Change in variables	Impact on profit after tax Increase (decrease) $m	Impact on equity Increase (decrease) $m	Impact on profit after tax Increase (decrease) $m	Impact on equity Increase (decrease) $m
Consolidated	+100 basis points	-	24	-	18
	-100 basis points	-	(25)	-	(18)
Company	+100 basis points	-	24	-	18
	-100 basis points	-	(25)	-	(18)

22. Risk management and financial instruments information (continued)

d) Market risk (continued)

(ii) Currency risk

Currency risk is the risk of an impact on Bank's profit after tax and equity from movements in foreign exchange rates. Changes in value would occur from foreign exchange rate movements on specific cash flow transactions (transaction risk). The Bank does not maintain unhedged foreign exchange exposures. There is no trading in currencies, and any funding raised in a non-domestic currency is immediately hedged into the functional currency.

e) Liquidity and re-financing risk

Liquidity risk is the risk that the Bank is not able to meet its obligations as they fall due or fund its assets. Liquidity risk can arise from AMP specific issues or when liquidity in the financial markets reduces significantly. The Bank maintains a liquidity buffer, above regulatory requirements, to meet its obligations even in a severe liquidity stress and ensures that its loans are funded with stable and diverse funding sources.

On 20 December 2013 APRA released its final version of APS 210 in order to implement the Basel III liquidity reforms into Australia. The Liquidity Coverage Ratio (LCR) effective from 1 January 2015, requires the Bank to maintain a minimum 100% LCR. The LCR requires banks to maintain sufficient liquid assets to meet its liquidity needs for a 30 calendar day period under a severe liquidity stress scenario. The Bank complied with the LCR from 1 January 2015.

Funding mix

The Bank's funding liabilities comprise a mix of retail deposits, term wholesale funding and short-term wholesale funding. The Bank manages funding mix and liquidity profile within risk appetite settings to enable it to respond to changing market and regulatory conditions.

In 2014, the Bank's funding came from customer deposits, the $2,000m issue in term borrowings through the securitisation program and a $500m medium term note (MTN).

In 2015 the Bank expects to maintain its diversified funding base, issuing MTNs, Residential Mortgage Backed Securities (RMBS) and other short-term wholesale securities while increasing deposit funding.

Contractual maturity of financial laibilities on an undiscounted basis

The following tables show cashflows associated with financial liabilities including derivative liabilities within relevant maturity groupings based on the earliest date on which the Consolidated and the Company may be required to pay.

The balances in the tables will not necessarily agree to amounts presented on the balance sheet as amounts incorporate net cashflows on an undiscounted basis (except for debt securities on issue which are based on expected repayment) and therefore include both prinicipal and associated future interest payments.

It should be noted that this is not how the Bank manages its liquidity risk which is detailed above.

22. Risk management and financial instruments information (continued)

e) Liquidity and re-financing risk (continued)

Consolidated	Up to 1 year or no term	1-5 years	Over 5 years	Total
2014	**$m**	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Due to banks	(698)	-	-	(698)
Deposits and other borrowings	(9,784)	(262)	-	(10,046)
Debt securities on issue	(1,481)	(3,801)	(1,433)	(6,715)
Subordinated debt	(9)	(167)	-	(176)
Derivative financial instruments				
Cross currency swaps				
- Outflows	(5)	(172)	-	(177)
- Inflows	1	126	-	127
Interest rate swaps	(14)	(43)	-	(57)
Commitments				
Credit-related commitments [1]	(2,804)	-	-	(2,804)
Total undiscounted financial liabilities and commitments	**(14,794)**	**(4,319)**	**(1,433)**	**(20,546)**
2013	**$m**	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Due to banks	(401)	-	-	(401)
Deposits and other borrowings	(9,550)	(329)	-	(9,879)
Debt securities on issue	(1,564)	(3,593)	(1,061)	(6,218)
Subordinated debt	(9)	(176)	-	(185)
Derivative financial instruments				
Cross currency swaps				
- Outflows	(6)	(226)	-	(232)
- Inflows	1	192	-	193
Interest rate swaps	(21)	(3)	-	(24)
Commitments				
Credit-related commitments [1]	(2,803)	-	-	(2,803)
Total undiscounted financial liabilities and commitments	**(14,353)**	**(4,135)**	**(1,061)**	**(19,549)**

Footnote

(1) The Bank expects that not all of the credit-related commitments will be drawn before their contractual expiry.

22. Risk management and financial instruments information (continued)

e) Liquidity and re-financing risk (continued)

Company	Up to 1 year or no term	1-5 years	Over 5 years	Total
2014	**$m**	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Due to banks	(698)	-	-	(698)
Deposits and other borrowings	(9,784)	(262)	-	(10,046)
Debt securities on issue	(387)	(1,518)	-	(1,905)
Due to controlled entities	(1,094)	(2,283)	(1,433)	(4,810)
Subordinated debt	(9)	(167)	-	(176)
Derivative financial instruments				
Interest rate swaps	(14)	(43)	-	(57)
Commitments				
Credit-related commitments (1)	(1,940)	-	-	(1,940)
Total undiscounted financial liabilities and commitments	**(13,926)**	**(4,273)**	**(1,433)**	**(19,632)**
2013	**$m**	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Due to banks	(401)	-	-	(401)
Deposits and other borrowings	(9,550)	(329)	-	(9,879)
Debt securities on issue	(610)	(1,211)	-	(1,821)
Due to controlled entities	(954)	(2,382)	(1,061)	(4,397)
Subordinated debt	(9)	(176)	-	(185)
Derivative financial instruments				
Interest rate swaps	(21)	(3)	-	(24)
Commitments				
Credit-related commitments (1)	(1,898)	-	-	(1,898)
Total undiscounted financial liabilities and commitments	**(13,443)**	**(4,101)**	**(1,061)**	**(18,605)**

Footnote

(1) The Bank expects that not all of the credit-related commitments will be drawn before their contractual expiry.

22. Risk management and financial instruments information (continued)

f) Credit risk

Credit risk in the Bank includes retail credit risk and treasury counterparty risk. Credit default risk is the risk of an adverse impact on results and asset values relative to expectations due to a counterparty failing to meet their contractual commitments in full and on time (i.e. obligator's non-payment of a debt).

Retail credit risk in the Bank is primarily through secured housing loans lending and is pursued provided it satisfies regulatory requirements, liquidity constraints and contributes value to the Bank. The Bank is licensed under the National Consumer Credit Protection Act which is regulated by ASIC and complies with its responsible lending obligations. Loans are written on the basis of asset quality and prudent lending practices, minimising undue concentration risk. The Bank restricts its exposure to default losses through prudent underwriting and requirement for lenders mortgage insurance where the loan as a proportion of value exceeds 80% or where the loan is securitised. The Bank securitises some of the housing loans (assets) it originates as an important component of its funding and capital management strategy. The Bank also typically provides other services to the securitisation, such as interest rate swaps, trust management and housing loans servicing. The Bank obtains capital relief through significant credit risk transfer of the securitised housing loans.

Practice finance loans credit risk is managed through the practice finance credit underwriting policy. The Bank assesses potential loans against defined criteria such as serviceability and financial position, credit history, practice performance and capability, adherence to product policy and security before it approves the loan to AMP aligned advisers. Credit reviews are also performed on a quarterly and annual basis for ongoing monitoring of the existing book along with credit risk reporting to management, the Credit Committee (CC), the Bank BAC and the Bank BRC as appropriate.

Counterparty risk is where the Bank incurs credit exposures to banks, other financial institutions and governments as a consequence of funding, liquidity management and hedging of interest rate and foreign exchange risks. Credit limits for counterparties are based on external ratings, consistent with the general policy for the AMP Limited Group.

The Bank's exposure to credit risk through lending is managed through the receipt and monitoring of collateral and insurance. The Bank also manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

AMP Limited Group's Concentration Risk Policy sets out the assessment and determination of what constitutes credit risk for AMP Limited Group. The policy has set exposure limits for each counterparty and credit rating. Compliance with this policy is monitored and exposures and breaches are reported to senior management of AMP Limited Group and AMP Audit Committee through the weekly and quarterly FRM Reports. Treasury credit breaches are reported to the AMP Group Treasurer, AMP Bank Treasurer, Bank ALCO and the Bank BAC.

Retail credit risk is reported to the CC and treasury counterparty risk to Bank ALCO.

(i) Management of credit risk concentration

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk in the Bank is managed through both aggregate credit rating limits and individual counterparty limits, which are determined predominantly on the basis of the counterparty's credit rating. The Bank's maximum credit exposure to any external non-sovereign and non-semi government counterparty as at 31 December 2014 was $296m (2013: $224m with an AA rated counterparty) with a currently AA- rated counterparty.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

At reporting date, the Bank had 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.

(ii) Exposure to credit risk

The Bank's maximum exposure to credit risk on recognised financial assets, without taking account of any collateral or other credit enhancements, as at the reporting date was $17,361m (2013: $16,606m). The Bank has loan commitments at reporting date of $2,804m (2013: $2,803m).

Maximum credit exposure includes loans and advances of $14,569m (2013: $13,391m) and other items arising in the course of operations $45m (2013: $61m).

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

22. Risk management and financial instruments information (continued)

f) Credit risk (continued)

Credit rating	2014 $m	2013 $m
AAA	587	902
AA- to AA+	1,512	1,160
A- to A+	421	781
BBB- to BBB+	227	311
Total financial assets with credit risk exposure managed by AMP Treasury	**2,747**	**3,154**

(iii) Credit risk of the loan portfolio – housing loans
The Bank is predominantly a lender for residential properties - both owner occupied and for investment. In every case the Bank completes a credit assessment, which includes cost of living allowance and requires valuation of the proposed security property. Approximately 28% of the Bank's residential loan portfolio is externally securitised and all loans in securitisation trusts are loans insured thereby further mitigating the risk. The Bank's CC and Board oversee trends in lending exposures and compliance with concentration limits as a further basis of limiting lending risk. The Bank secures its housing loans with mortgages over relevant properties and as a result manages credit risk on its loan with conservative lending policies and particular focus on the loan to value ratio (LVR). The LVR is calculated by dividing the total loan amount outstanding by the lower of the Bank's approved valuation amount or the purchase price. Loans with LVR greater than 80% are fully mortgage insured. Mortgage insurance is provided by Genworth Mortgage Insurance Australia Ltd and QBE Lenders Mortgage Insurance Ltd who are both regulated by APRA. The Bank has strong relationships with both insurers and experienced minimal levels of historic claim rejections and reductions. The average LVR at origination of the Bank's loan portfolio for existing and new business is set out in the following table:

LVR %	Existing business 2014	New business 2014	Existing business 2013	New business 2013
0 - 50	16%	8%	17%	9%
51 - 60	10%	6%	10%	7%
61 - 70	15%	10%	15%	12%
71 - 80	41%	54%	41%	52%
81 - 90	13%	10%	14%	15%
91 - 95	4%	11%	2%	4%
> 95	1%	1%	1%	1%

(iv) Loans on policy
Loans on policy are loans secured against the surrender value of AMP life insurance policies.

(v) Other loans
Practice Finance loans are loans to AMP aligned adviser and secured against the underlying client registers and the income generated from these clients.

(vi) Past due but not impaired financial assets
The following table provides an aging analysis of loans and advances to customers that are past due as at reporting date but not impaired.

	2014 $m	2013 $m
Past due but not impaired:		
- Less than 30 days	320	330
- 31 days to 60 days	48	55
- 61 days to 90 days	20	17
- More than 91 days	57	44
Total past due but not impaired	**445**	**446**

22. Risk management and financial instruments information (continued)

f) Credit risk (continued)

(vii) Impaired financial assets and impairment assessment
The Bank maintains individual provisions and collective loan impairment provisions against impaired loans.

(viii) Renegotiated loans
Where possible, the Bank seeks to restructure loans for borrowers seeking hardship relief rather than take possession of collateral. This may involve capitalising interest repayments for a period and increasing the repayment arrangement for the remaining term of the loan. Once the terms have been renegotiated, the loan is no longer considered past due. The Bank assisted customers by renegotiating $2m (2013: $3m) worth of arrears during the year, that otherwise would be past due or impaired.

(ix) Collateral on housing loans
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The Bank holds collateral against its loans and advances to customer primary in the form of mortgage interests over property, other registered securities over assets and guarantees.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

In the event of customer default, the Bank can enforce any security held as collateral against the outstanding claim. Any loan security is usually held as mortgagee in possession while the Bank seeks to realise its value through the sale of property. Therefore the Bank does not hold any real estate or other assets acquired through the repossession of collateral.

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 Income statement unless they qualify as effective cash flow hedges for accounting purposes, as set out in Note 1(m).

At any one time, the maximum exposure to credit risk will generally be limited to the current fair value of instruments that are favourable to the Bank less collateral obtained. This credit risk exposure is managed as part of the overall limits with counterparties.

Master netting agreement

The Bank uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document OTC derivative transactions. The Bank also executes Credit Support Annexes (CSA) with a number of counterparties in conjunction with the ISDA Master Agreements. The CSA provides for the transfer of an amount to be transferred from the party that is overall out of the money to the party that is overall in the money under the ISDA to cover credit exposure. Under the ISDA Master Agreement, if a default of counterparty occurs, all contracts with the counterparty may be terminated at the election of the Bank. They are then settled on a net basis at prevailing market values with an account taken of any amounts transferred under a CSA. As at 31 December 2014, when these netting arrangements are applied to the derivative portfolio, the derivative assets are reduced by $24m (31 December 2013: $11m) to the net amount of $10m (31 December 2013: $20m). The derivative liabilities are reduced by $24m (31 December 2013: $11m) to the net amount of $16m (31 December 2013: $34m).

The Bank uses derivative financial instruments to hedge financial risks from movements in interest rates and foreign exchange rates. Derivatives which may be used are:

i) 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 Bank are:

- *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).
- *cross-currency and foreign 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.

22. Risk management and financial instruments information (continued)

g) Derivative financial instruments (continued)

ii) Forward contracts – 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).

iii) Collateral
The Bank currently discloses the fair value of its derivative instruments in its balance sheet on a gross basis. The Bank does have netting and collateral arrangements in place with some counterparties. Collateral generally consists of 11am loans and deposits, is exchanged between the counterparties to reduce the exposure from the net fair value of derivative assets and liabilities between the counterparties.

There were also $9m (2013: $14m) of collateral deposits (due to other financial institutions) and $12m (2013: $9m) of collateral loans (due from other financial institutions) relating to derivative assets and liabilities.

h) Accounting for hedges

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

Derivative transactions may qualify either as fair value hedges or cash flow hedges. The Bank's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1(m), where terms used in the following section are also explained. The Bank also enters into derivative transactions that provide economic hedges but which do not meet the requirements for hedge accounting treatment.

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.

During 2014, the Bank recognised a net gain of $18m (2013: $43m gain) on the hedging instruments. The net loss on hedged items attributable to the hedged risks amounted to $18m (2013: $43m loss).

Derivative instruments accounted for as cash flow hedges
The Bank is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at fixed and variable rates. The Bank uses interest rate swaps and cash flow hedges to manage interest rate risks.

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

2014 **Consolidated**	**0-1 year** **$m**	**1-2 years** **$m**	**2-3 years** **$m**	**3-4 years** **$m**	**4-5 years** **$m**
Cash inflows	171	72	27	11	7
Cash outflows	(182)	(83)	(29)	(11)	(7)
Net cash outlfows	**(11)**	**(11)**	**(2)**	**-**	**-**
2013					
Consolidated					
Cash inflows	145	80	42	9	6
Cash outflows	(163)	(76)	(38)	(11)	(8)
Net cash inflows (outlfows)	**(18)**	**4**	**4**	**(2)**	**(2)**
2014					
Company					
Cash inflows	171	72	27	11	7
Cash outflows	(182)	(83)	(29)	(11)	(7)
Net cash outlfows	**(11)**	**(10)**	**(2)**	**-**	**-**
2013					
Company					
Cash inflows	145	80	42	9	6
Cash outflows	(163)	(76)	(38)	(11)	(8)
Net cash inflows (outlfows)	**(18)**	**4**	**4**	**(2)**	**(2)**

Nil (2013: Nil) was recognised in the Income statement due to hedge ineffectiveness from cash flow hedges.

22. Risk management and financial instruments information (continued)

i) Fair values

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Statement of financial position at fair value.

Consolidated	Carrying amount Dec 2014 $m	Aggregated fair value Dec 2014 $m	Carrying amount Dec 2013 $m	Aggregated fair value Dec 2013 $m
Financial assets				
Due from banks	422	422	372	372
Debt securities - held to maturity	2,334	2,346	2,797	2,802
Loans and advances	14,569	14,602	13,391	13,409
Total financial assets	**17,325**	**17,370**	**16,560**	**16,583**
Financial liabilities				
Due to banks	698	698	405	405
Deposits and other borrowings	9,977	9,974	9,866	9,863
Debt securities on issue - amortised cost	5,620	5,607	5,183	5,497
Subordinated debt	150	150	150	156
Total financial liabilities	**16,445**	**16,429**	**15,604**	**15,921**

The Company disclosures for fair values of financial assets and liabilities have not been separately provided as these are similar to the consolidated disclosures.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Refer to Note 1(m) for fair value estimation methods.

Debt securities
The estimated fair value of debt securities is determined with reference to interest rate yield curves.

Loans and advances
The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received based on the maturity profile of the loans.

Due to banks
The fair value of amounts due to other banks are the same as carrying value except for certificate of deposits, where the estimated fair value is determined with reference to interest rate yield curves.

Deposit and other borrowings
The estimated fair value of deposits and other borrowings are the same as the carrying amount.

Debt securities on issue
The estimated fair value of debt securities on issue is determined with reference to quoted market prices. For debt securities on issue 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.

Subordinated debt
The estimated fair value of subordinated debt is determined using a discounted cash flow model on a current yield curve appropriate for the remaining term to maturity.

22. Risk management and financial instruments information (continued)

i) Fair value measures

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

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

Level 2: Valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals, currency rates, option volatilities, credit risks, and default rates.

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

Bank has assessed its financial instruments recorded at fair value and concluded that all of them are categorised as Level 2 (2013: all level 2).

23. Capital adequacy

As an authorised deposit-taking institution (ADI), AMP Bank Limited (the Bank) is subject to regulation by APRA under the authority of the *Banking Act 1959.* APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel III Framework.

The Bank's capital structure comprises various forms of capital. Common Equity Tier 1 (CET1) comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk weighted assets is called the CET1 ratio. Additional Tier 1 capital comprises certain securities with required loss absorbing characteristics. Together these components of capital make up Tier 1 capital and the ratio of such capital to risk weighted assets is called the Tier 1 capital ratio.

Tier 2 capital mainly comprises subordinated debt instruments, and contributes to the overall capital framework.

CET1 contains the highest quality of capital, followed by Additional Tier 1 capital and then followed by Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital ratio. The minimum CET1 ratio, Tier 1 capital ratio and Total Capital ratio under APRA's Basel III Prudential Standard APS210 are 4.5%, 6.0% and 8.0% respectively.

In addition to the minimum capital ratios described above, APRA sets Prudential Capital Requirements at levels proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business. The Bank is required to inform APRA immediately of any breach or potential breach of its minimum capital requirements, including details of remedial action taken or planned to be taken.

The Bank actively manages its capital to balance the requirements of various stakeholders (regulators, rating agencies and shareholders). This is achieved by optimising the mix of capital while maintaining adequate capital ratios throughout the financial year.

The Bank's capital position is monitored on a continuous basis and reported monthly to the Bank ALCO. The Bank's capital ratios throughout the 2014 financial years were in compliance with both APRA and the Bank Board minimum capital requirements. The Bank continues to operate at a buffer to the Bank Board requirement.

Credit ratings

The key ratings for the Bank, as published by Standard & Poor's and Moody's Investor Services, at 31 December 2014 were as follows:

Company	Standard & Poor's Credit rating	Moody's Credit rating
AMP Bank Limited	A+/Stable/A-1	A2/Stable/P-1

24. Events occurring after the reporting date

On 11 February 2015, AMP Bank announced a final dividend of $12.75m.

With the exception of the above, the directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected or may significantly affect the consolidated entity's operations in future years, the results of those operations in future years, or its state of affairs in future years which is not already reflected in this report.

AMP BANK LIMITED
Directors' declaration
for the year ended 31 December 2014

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

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

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

(c) the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards as discussed in note1(a).

....

Director PAUL FEGAN

Sydney, 29 March 2015

Building a better working world

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Independent auditor's report to the member of AMP Bank Limited

We have audited the accompanying financial report of AMP Bank Limited, which comprises the statements of financial position as at 31 December 2014, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor’s Independence Declaration, a copy of which is included in the directors’ report.

Opinion

In our opinion:

a. the financial report of AMP Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 31 December 2014 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney
29 March 2015