AMP Bank Limited

ABN 15 081 596 009

Financial Report for the year ended 31 December 2018

AMP Bank Limited
ABN 15 081 596 009
FULL YEAR FINANCIAL REPORT
31 December 2018

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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 2018

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 2018.

Directors

The directors of the Company during the year ended 31 December 2018 and up to the date of this report are shown below. Directors were in office for this entire period except where stated otherwise.

Patricia Akopiantz (Chairperson)
Sally Bruce
Gordon Lefevre
Wendy Thorpe
Peter Varghese (appointed on 09 May 2018)
Trudy Vonhoff
Holly Suzanna Kramer (resigned on 08 May 2018)

Principal activities

AMP Bank Limited is an Australian retail bank offering residential mortgages, deposits and transaction banking for around 100,000 customers. It also has a small portfolio of practice finance loans supporting AMP's adviser network. AMP Bank distributes through brokers, AMP advisers, and direct to retail customers via phone and internet banking.

Review of operations and results

The result for the year ended 31 December 2018 was a consolidated net profit after tax of $151m (2017: $137m).

Dividends & distributions

During 2018, the Bank declared and paid $25m (2017: $8m) of dividends to its immediate parent company, AMP Financial Investment Group Holdings Limited. During the full year ended 31 December 2018, AMP Bank paid $9m (2017: $9m) of distributions on capital notes to AMP Limited. Details of dividends and distributions paid and declared during the year are disclosed in Note 16 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

In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission) to investigate conduct, practices, behaviour or business activities by financial services entities, including AMP group, that may amount to misconduct or that may have fallen below community standards and expectations. During the course of 2018, the Royal Commission has conducted a number of public hearings and required the production of documents as part of its inquiry.

The final report of the Royal Commission was publicly released on 4 February 2019 and made:

- 76 policy recommendations which may result in legislative and regulatory change; and
- a number of findings of actual or possible misconduct (including breaches of law) or conduct which does or may fall below community standards and expectations in relation to participants in the financial services industry, including AMP group.

AMP Bank is considering the various matters raised in the Commissioner's final report.

AMP Bank Limited

Directors' Report (continued)

for the year ended 31 December 2018

On 4 February 2019, the Bank entered into a deed of indemnity with AMP Group Holdings Limited (AMPGH) under which AMPGH agreed to unconditionally and irrevocably indemnify the Bank for losses in excesses of those provided for as at 31 January 2019 suffered in connection with loans provided to an authorised representative of an AMP licensee (AMP Adviser) which relate to a change to law, regulation or a change an AMP Licensee makes to its arrangements with AMP Advisers or matters identified in the course of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

On 12 February 2019, the Company declared a final dividend of $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.

Indemnification and insurance of directors and officers

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

During (and since the end of) the financial year ended 31 December 2018, AMP Limited (the Company's ultimate parent company) maintained, and paid the premium for, directors' and officers' and Company reimbursement insurance for the benefit of all of the officers of AMP group (including each director, secretary and senior manager of the company) against certain liabilities (including legal costs) as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the liabilities covered, the amount of the premium payable, the limit of liability and other terms.

In addition, AMP Group Holdings Limited ("AMPGH") and each of the current and former directors and secretaries of the company are parties to deeds of indemnity, insurance and access. Those deeds provides that:

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

Rounding and parent entity information

In accordance with the Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191, amounts in this directors' report and the accompanying financial report have been rounded 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 2018.

Signed in accordance with a resolution of the directors.

Director

Sydney, 14 February 2019

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

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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of AMP Bank Limited

As lead auditor for the audit of AMP Bank Limited for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of AMP Bank Limited and the entities it controlled during the financial year.

Ernst & Young

Clare Sporle
Partner
14 February 2019

AMP Bank Limited

Income statement

for the year ended 31 December 2018

	Note	Consolidated Dec 2018 $m	Consolidated Dec 2017 $m	Company Dec 2018 $m	Company Dec 2017 $m
Interest income	3	897	814	897	814
Interest expense	3	(581)	(531)	(595)	(543)
Net interest income		**316**	**283**	**302**	**271**
Fee and commission income		11	10	23	19
Other income / (expenses)	4	8	(4)	8	(4)
Impairment expenses		(13)	(5)	(13)	(5)
Operating expenses	4	(107)	(88)	(105)	(85)
Profit for the year before tax		**215**	**196**	**215**	**196**
Income tax expense	5	(64)	(59)	(64)	(59)
Profit for the year after tax		**151**	**137**	**151**	**137**

AMP Bank Limited

Statement of comprehensive income

for the year ended 31 December 2018

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Profit for the year after tax	151	137	151	137
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges [1]				
- Net (loss) / gain on cashflow hedges	(32)	4	(32)	4
- Tax effect on cashflow hedge gains / losses	10	(1)	10	(1)
- Net amount transferred to profit for the year	11	10	11	10
- Tax effect on amount transferred to profit for the year	(3)	(3)	(3)	(3)
Debt securities classified at fair value through other comprehensive income [2]				
- Net fair value gain	22	-	22	-
- Tax effect on changes in fair value	(7)	-	(7)	-
Other comprehensive income for the year	**1**	**10**	**1**	**10**
Total comprehensive income	**152**	**147**	**152**	**147**

Footnote:

[1] *Cash flow hedge movements relate to interest rate swaps used to manage the Bank's interest rate risk.*

[2] *With effect from 1st January 2018 AMP Bank adopted AASB9 Financial Instruments fair value through other comprehensive income (FVOCI) classification for its debt securities.*

AMP Bank Limited

Statement of financial position

As at 31 December 2018

		Consolidated		Company	
	Note	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Assets					
Cash and cash equivalents		24	-	24	-
Due from banks		365	284	318	250
Derivative financial assets		16	23	16	23
Other assets	6	5	5	29	17
Debt securities	7	2,355	2,528	2,355	2,528
Loans and advances	8	20,089	19,549	20,089	19,549
Deferred tax assets	5	39	36	18	12
Total assets		**22,893**	**22,425**	**22,849**	**22,379**
Liabilities					
Due to banks		288	740	288	740
Derivative financial liabilities		32	27	32	27
Deposits and other borrowings	10	13,670	13,753	13,670	13,753
Intercompany tax payable to head entity		26	34	26	34
Employee provisions	11	5	6	5	6
Debt securities on issue	12	7,475	6,582	2,855	2,206
Due to controlled entities		-	-	4,576	4,330
Other liabilities	13	17	16	17	16
Subordinated debt	14	249	249	249	249
Total liabilities		**21,762**	**21,407**	**21,718**	**21,361**
Net assets		**1,131**	**1,018**	**1,131**	**1,018**
Equity					
Contributed equity	17	514	514	514	514
Reserves		10	6	10	6
Retained earnings		607	498	607	498
Total equity		**1,131**	**1,018**	**1,131**	**1,018**

AMP Bank Limited

Statement of changes in equity

for the year ended 31 December 2018

		Equity attributable to shareholders of AMP Bank Limited			
		Contributed equity	Other reserves [1]	Retained earnings	Total equity
	Note	$m	$m	$m	$m
Consolidated					
31 Dec 2018					
Balance as at 31 December 2017		**514**	**6**	**498**	**1,018**
Impact of adopting AASB 9 at 1 January 2018	15	-	3	(8)	(5)
Balance as at 1 January 2018		**514**	**9**	**490**	**1,013**
Profit for the year after tax		-	-	151	151
Other comprehensive income		-	1	-	1
Total comprehensive income		-	1	151	152
Distributions paid - capital notes	16	-	-	(9)	(9)
Dividends paid - ordinary shares	16	-	-	(25)	(25)
Balance at the end of the year		**514**	**10**	**607**	**1,131**
Consolidated					
31 Dec 2017					
Balance at the beginning of the year		**484**	**(4)**	**378**	**858**
Profit for the year after tax		-	-	137	137
Other comprehensive income		-	10	-	10
Total comprehensive income		-	10	137	147
Issue of ordinary share capital		30	-	-	30
Distributions paid - capital notes	16	-	-	(9)	(9)
Dividends paid - ordinary shares	16	-	-	(8)	(8)
Balance at the end of the year		**514**	**6**	**498**	**1,018**

		Equity attributable to shareholders of AMP Bank Limited			
		Contributed equity	Other reserves [1]	Retained earnings	Total equity
		$m	$m	$m	$m
Company					
31 Dec 2018					
Balance as at 31 December 2017		**514**	**6**	**498**	**1,018**
Impact of adopting AASB 9 at 1 January 2018	15	-	3	(8)	(5)
Balance as at 1 January 2018		**514**	**9**	**490**	**1,013**
Profit for the year after tax		-	-	151	151
Other comprehensive income		-	1	-	1
Total comprehensive income		-	1	151	152
Distributions paid - capital notes	16	-	-	(9)	(9)
Dividends paid - ordinary shares	16	-	-	(25)	(25)
Balance at the end of the year		**514**	**10**	**607**	**1,131**
Company					
31 Dec 2017					
Balance at the beginning of the year		**484**	**(4)**	**378**	**858**
Profit for the year after tax		-	-	137	137
Other comprehensive income		-	10	-	10
Total comprehensive income		-	10	137	147
Issue of ordinary share capital		30	-	-	30
Distributions paid - capital notes	16	-	-	(9)	(9)
Dividends paid - ordinary shares	16	-	-	(8)	(8)
Balance at the end of the year		**514**	**6**	**498**	**1,018**

Footnotes:

[1] Other reserves comprise of cash flow hedge reserve, share based payment reserve and fair value asset reserve. Cash flow hedge reserve represents the cumulative impact of changes in the fair value of derivatives designated as cash flow hedges which are effective under hedge accounting rules. Hedging gains and losses are transferred to the income statement when they are deemed ineffective or upon realisation of the cash flow. Fair value reserve represents the cumulative changes in fair values for debt securities classified at FVOCI. When the debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified (i.e. recycled) from equity to profit or loss.

AMP Bank Limited

Statement of cash flows

for the year ended 31 December 2018

		Consolidated		Company	
	Note	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Cash flows from operating activities					
Interest received		931	810	931	810
Interest paid		(559)	(498)	(580)	(516)
Fees and commissions received		11	10	23	19
Payments to suppliers and employees		(104)	(85)	(102)	(82)
Income tax paid		(73)	(47)	(73)	(47)
Cash flows from operating activities before changes in operating assets and liabilities		**206**	**190**	**199**	**184**
Changes in operating assets and liabilities:					
Net funds advanced to customers for loans and advances		(594)	(2,374)	(594)	(2,374)
Net funds advanced to banks		(452)	239	(452)	239
Net (repayments) / acceptance from deposits and other borrowings		(98)	1,299	(98)	1,299
Net increase in other assets		-	(2)	(12)	(14)
Net increase in other liabilities		1	12	1	13
Net cash (used in) / provided by operating activities	21(b)	**(937)**	**(636)**	**(956)**	**(653)**
Cash flows from investing activities					
Purchase of debt securities		(5,126)	(6,938)	(5,126)	(6,938)
Proceeds from maturity of debt securities		5,319	5,831	5,319	5,831
Net cash provided by / (used in) investing activities		**193**	**(1,107)**	**193**	**(1,107)**
Cash flows from financing activities					
Net increase in loans due to controlled entities		-	-	243	1,289
Issue of ordinary shares		-	30	-	30
Proceeds from Issuance of Subordinated debt		-	250	-	250
Redemption of Subordinated debt		-	(150)	-	(150)
Proceeds from issue of debt securities on issue		6,237	4,644	1,246	1,150
Repayment of debt securities on issue		(5,354)	(3,072)	(600)	(850)
Dividends paid - ordinary shares		(25)	(8)	(25)	(8)
Distributions paid - capital notes		(9)	(9)	(9)	(9)
Net cash provided by financing activities		**849**	**1,685**	**855**	**1,702**
Net increase / (decrease) in cash and cash equivalents		105	(58)	92	(58)
Cash and cash equivalents at the beginning of the year		284	342	250	308
Cash and cash equivalents at the end of the year	21(a)	**389**	**284**	**342**	**250**

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 Bank for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 4 February 2019.

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* (Cth). 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.

In accordance with the Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191, amounts in this directors' report and the accompanying financial report have been rounded 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.

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. Wherever necessary, comparative information has been reclassified to be consistent with current period disclosure.

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. Although the amount of those assets which may be realised and those liabilities which may be settled within 12 months of the reporting date are not always known, estimates of amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

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.

New accounting standards and interpretations issued but not yet effective

AASB 16 Leases (AASB 16). AASB 16 is effective for periods beginning on 1 January 2019. AASB 16 requires lessees to recognise most leases on balance sheet as lease liabilities with the corresponding right of use as assets. The adoption of this standard is not expected to have any material effect on the Bank's financial statements.

AASB Interpretation 23 '*Uncertainty over Income Tax Treatments 'effective for periods beginning on 1 January 2019.* The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

Changes in accounting policy

A number of new accounting standards and amendments have been adopted effective 1 January 2018. These have not had a material effect on the financial position or performance of the Bank.

Adoption of AASB 15 'Revenue from Contracts with Customers'

The Bank has adopted AASB 15 Revenue from Contracts with Customers ("AASB 15") effective from 1 January 2018. AASB 15 defines principles for recognising revenue and introduces new disclosure requirements. Under AASB 15, revenue will be recognised at an amount that reflects the consideration which an entity expects to be entitled to in exchange for transferring goods or services to a customer. For AMP Bank, AASB 15 applies primarily to the fee revenue as interest income and other revenue are accounted for under other applicable standards. The adoption of this standard does not have any material effect on the Bank's financial statements.

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

a) Basis of preparation (continued)

Adoption of AASB9 'Financial Instruments'

The Bank has adopted AASB 9 Financial Instruments ("AASB 9") effective from 1 January 2018 with the exception to hedge accounting where the Bank has chosen to continue to apply the hedge accounting requirements of AASB 139 as permitted by AASB 9.

The Bank has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore the information presented for 2017 does not reflect the requirements of AASB 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of AASB 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 15.

The key changes in the Bank's accounting policies resulting from the adoption of AASB 9 are summarised below:

Classification and measurement

The Bank determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual characteristics of the financial assets.

Business Model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The solely payments of principal and interest test

Assessment of whether contractual cashflows are solely payments of principal and interest (SPPI test).

The Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Classification of financial assets:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit and loss

Impairment of financial assets

The Bank recognises expected credit losses (ECL) for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income (FVOCI) together with loan commitments and financial guarantee contracts. Further details regarding ECL calculations are given in Note 8.

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

a) Basis of preparation (continued)

The Bank applies a three-stage approach to measure the expected credit loss as follows:

Stage 1 (12-month ECL)

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

Stage 2 (Lifetime ECL - not credit impaired)

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

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that were 30 days past due at least once over the last 6 months are deemed to have significant increase in credit risk since initial recognition. For loans and advances, other risk factors like hardship, loan to value ratio (LVR) and loan to income ratio (LTI) are also considered in order to determine a significant increase in credit risk.

Stage 3 (Lifetime ECL - credit impaired)

The Bank measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Financial assets are classified as impaired when payment is 90 days past due or when there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument.

The key elements in the measurement of ECL are as follows:

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

The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

Hedge accounting

As permitted by AASB 9 the Bank has chosen to continue to apply the hedge accounting requirements of AASB 139.

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

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(o)).

c) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprises of amounts due from banks on demand or with an original maturity of three months or less.

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 measured at amortised cost using the effective interest method.

e) Financial assets

The following accounting policies are applicable for 2018, for accounting policies related to prior period please refer to 2017 financial statements.

Debt securities at FVOCI

Debt securities are measured at FVOCI when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial assets meet the SPPI test

FVOCI instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL for debt instruments at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the provision that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated gain or loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

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 provision for impairment (Note 8) when both the following conditions are met-
- The instrument is held within a business model, the objective of which is achieved by collecting contractual cash flows and

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

e) Financial assets (continued)

- The contractual terms of the financial assets meet the SPPI test

The amounts required to bring the provisions for impairment to their assessed levels are recognised in the Income statement at 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, and is therefore not disclosed separately in the financial statements. Further detail is provided in Note 22.

h) Other assets

Other assets are initially recognised at fair value and subsequently measured at amortised cost. Other assets comprise prepayments and sundry receivables.

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.

i) 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.

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

i) Taxes (continued)

Income tax expense
Income tax expense is the tax payable on taxable income for the current period based on the income tax rate 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.

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.

j) 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.

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

j) Financial liabilities (continued)

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.

k) 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, 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.

Employee provisions
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.

l) 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. 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.

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

l) Derivative financial assets, derivative financial liabilities and hedging (continued)

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 is expected to 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, 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.

m) 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.

n) Contributed equity

Ordinary shares and capital notes are recognised as the fair value of consideration received by the Company. Incremental costs directly attributable to the issue of certain new shares are recognised in equity as a deduction, net of tax, from the proceeds.

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

o) Securitisation

The Bank engages in securitisation activities for funding and liquidity purposes. The Bank principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Bank is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets. 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.

The Bank provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 31 December 2018 was $8.1m (2017: $2.4m). The redraw facility limit as at 31 December 2018 was $23m (2017: $21.1m).

p) 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.

q) Interest income and expense

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

When financial assets become credit-impaired and are, therefore, regarded as "stage 3", interest income is required to be calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets are no longer credit-impaired, interest income is calculated on a gross basis.

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.

r) Fees and commission income

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

s) Other income / (expenses)

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

t) Operating expenses

Operating expenses are expensed as incurred.

u) 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 at fair value. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions. Further detail on the determination of fair values of financial instruments is set out in Note 24.

(c) Provisions

(i) Provisions for impairment

The accounting policy, as explained in Note 1 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) are outputs of ECL models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

(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 11 sets out further information on employee provisions.

(d) Interest income and expenses

As noted in Note 1(q), interest income and expense for all financial instruments measured at amortised cost and debt securities at FVOCI 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 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Interest income				
Due from banks	4	4	4	4
Derivatives[1]	21	10	21	10
Debt securities[2]	66	47	66	47
Loans and advances	806	753	806	753
Total interest income	**897**	**814**	**897**	**814**
Interest expense				
Due to banks	27	22	27	22
Derivatives[1]	20	22	20	22
Deposits and other borrowings	307	315	307	315
Debt securities on issue	218	162	78	62
Due to controlled entities	-	-	154	112
Subordinated debt	9	10	9	10
Total interest expense	**581**	**531**	**595**	**543**
Net interest income	**316**	**283**	**302**	**271**

Footnote

[1] *Derivatives are carried at fair value through profit and loss (FVTPL) with interest income not recognised using the effective interest rate (EIR) method*

[2] *Debt securities are carried at FVOCI in 2018 and held to maturity (HTM) in 2017*

4. Other income / (expenses) and operating expenses

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Other income / (expenses)				
Gains / (losses) on financial instruments				
Derivatives not designated in hedge relationships	9	(12)	9	(12)
Foreign exchange translation (losses) / gains	(1)	8	(1)	8
Total other income / (expenses)	**8**	**(4)**	**8**	**(4)**

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Operating expenses				
Staff and related expenses				
Wages and salaries	31	24	31	24
Contributions to defined contribution funds	3	3	3	3
Other operating expenses				
Information technology and communication	13	10	13	10
Advertising and marketing expenses	1	1	1	1
Legal and regulatory charges	3	2	3	2
Service charges - related party	42	39	42	39
Other expenses	14	9	12	6
Total operating expenses	**107**	**88**	**105**	**85**

5. Income tax

	Consolidated		Company	
	Dec 2018 $m	**Dec 2017 $m**	**Dec 2018 $m**	**Dec 2017 $m**
Analysis of income tax expense				
Current tax expense	(67)	(67)	(70)	(55)
Deferred tax credit / (expense)	3	8	6	(4)
Income tax expense	**(64)**	**(59)**	**(64)**	**(59)**
Deferred income tax credit / (expense) included in income tax expense comprises:				
Increase / (decrease) in deferred tax assets	3	8	6	(4)
Total deferred tax credit / (expense) included in income tax	**3**	**8**	**6**	**(4)**
Relationship between income tax expense and accounting profit				
Profit before income tax per Income Statement	215	196	215	196
Prima facie income tax calculated at 30% (2017: 30%)	(64)	(59)	(64)	(59)
Income tax expense per Income Statement	**(64)**	**(59)**	**(64)**	**(59)**
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	7	(4)	7	(4)
Debt securities classified as FVOCI	(7)	-	(7)	-
Total amount recognised directly in equity	**-**	**(4)**	**-**	**(4)**
Analysis of deferred tax assets				
Fair value of derivatives	27	30	6	6
Provisions and accruals	9	8	9	8
Other	3	(2)	3	(2)
Total deferred tax assets	**39**	**36**	**18**	**12**

6. Other assets

	Consolidated		Company	
	Dec 2018 $m	**Dec 2017 $m**	**Dec 2018 $m**	**Dec 2017 $m**
Prepayments	4	3	4	3
Other	1	2	25	14
Total other assets [1]	**5**	**5**	**29**	**17**

Footnote:
(1) *$4.1m (2017: $2m) is expected to be received more than 12 months from the reporting date for the consolidated entity.*

7. Debt securities

The table below shows the fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's credit grade.

	Consolidated		Company	
Internal credit rating Grade	**Dec 2018 $m**	**Dec 2017[2] $m**	**Dec 2018 $m**	**Dec 2017[2] $m**
Senior investment grade	2,355	2,363	2,355	2,363
Investment Grade	-	165	-	165
Total debt securities - FVOCI[1]	**2,355**	**2,528**	**2,355**	**2,528**

Footnote:
(1) *$1,940m (2017: $1,530m) is expected to be received more than 12 months from the reporting date for the consolidated entity and the Company.*
(2) *Dec 2017 represents debt securities measured at amortised cost.*

All debt securities at FVOCI are classified as Stage 1 for ECL calculation.
Significant changes in the gross carrying amount of debt securities at FVOCI that have contributed to changes in the ECL provision were:

- New purchases $5,126m
- Debt securities derecognised or matured $5,319m
- Net fair value appreciation $22m

8. Loans and advances

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Housing loans and practice finance loans	20,127	19,566	20,127	19,566
Total loans and advances (1)(2)(3)	**20,127**	**19,566**	**20,127**	**19,566**
Less: Provisions for impairment				
Individual provisions	(17)	(7)	(17)	(7)
Collective provisions	(21)	(10)	(21)	(10)
Total provision for impairment	**(38)**	**(17)**	**(38)**	**(17)**
Total net loans and advances	**20,089**	**19,549**	**20,089**	**19,549**
Movement in provisions:				
Individual provision				
Balance at the beginning of the period	7	4	7	4
Transition adjustment due to AASB 9	7	-	7	-
Increase in provision	5	5	5	5
Bad debts written off	(2)	(2)	(2)	(2)
Balance at the end of the period	17	7	17	7
Collective provision				
Balance at the beginning of the period	10	10	10	10
Transition adjustment due to AASB 9	5	-	5	-
Increase in provision	6	-	6	-
Balance at the end of the period	**21**	**10**	**21**	**10**

Footnotes:

(1) *During the year, housing loans totalling $3,154m (2017: $3,160m) were transferred from the Company to securitisation vehicles. At 31 December 2018, the Bank has outstanding externally securitised assets amounting to $4,066m (2017: $4,236m) after allowing for run-off of the initial assets securitised and securitisation entities wound up.*

(2) *$16 ,444 m (2017: $15,496m) is expected to be received more than 12 months after the reporting date for the consolidated entity and the Company.*

(3) *Total loans and advances includes net capitalised cost of $84m (2017: $82m)*

Changes to Expected Credit Losses (ECL) provisions during the year

	2018			
	Stage 1 Collective $m	Stage 2 Collective $m	Stage 3 $m	Total $m
ECL provisions at 1 January 2018[1]	3	12	14	29
New loans originated during the year	-	1	-	1
Loans derecognised or repaid during the year	-	(1)	(3)	(4)
Transferred to Stage 1	-	1	1	2
Transferred to Stage 2	-	-	3	3
Transferred to Stage 3	-	(2)	-	(2)
Increase in provisions during the year	7	-	4	11
Loans written off during the year	-	-	(2)	(2)
ECL provisions	10	11	17	38

Footnote:

(1) *Includes $12m opening adjustment due to implementation of AASB 9*

Significant changes in the gross carrying amount of loans and advances that have contributed to changes in the provision balance during the year were as follows:

- New loans originated of $3,283m
- Loans partially or fully repaid $2,309m
- Loans transferred to stage 1 $299m
- Loans transferred to stage 2 and stage 3 $480m

9. Asset quality

The table below shows the credit quality based on the Bank's internal credit grades and year-end stage classification.

Housing loans

	Dec-18				Dec-17
Internal credit rating grade	**Stage 1 $m**	**Stage 2 $m**	**Stage 3 $m**	**Total $m**	**Total $m**
Performing	17,452	541	-	17,993	17,605
Past due but not impaired	1,111	239	-	1,350	1,185
Impaired	-	-	151	151	118
Total	**18,563**	**780**	**151**	**19,494**	**18,908**

Practice finance loans

	Dec-18				Dec-17
Internal credit rating grade	**Stage 1 $m**	**Stage 2 $m**	**Stage 3 $m**	**Total $m**	**Total $m**
Sub-investment grade	416	80	-	496	557
Impaired	-	-	53	53	19
Total	**416**	**80**	**53**	**549**	**576**

10. Deposits and other borrowings

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Customer deposits [(1)]	11,012	9,655	11,012	9,655
Certificate of deposits	323	1,151	323	1,151
Euro commercial papers	17	348	17	348
Related party deposits	2,318	2,599	2,318	2,599
Total deposits and other borrowings [(2)]	**13,670**	**13,753**	**13,670**	**13,753**

Footnote:

[(1)] *The Company holds a $2.81b deposit (2017: $2.31b) on behalf of NMMT Limited which is considered a related party deposit. Interest is paid on the deposit at normal commercial terms. NMMT is required to provide the Company with 12 months' notice prior to transferring the deposit arrangement.*

[(2)] *$83m (2017: $41m) is expected to be settled more than 12 months from the reporting date for the consolidated entity and the Company.*

11. Employee provisions

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Employee entitlements [(1)(2)]	5	6	5	6
Total provisions	**5**	**6**	**5**	**6**
Reconciliation of movements in provisions				
Employee entitlements				
Balance at the beginning of the year	6	3	6	3
Additional provision made during the year	5	6	5	6
Provisions used during the year	(6)	(3)	(6)	(3)
Balance at the end of the year	**5**	**6**	**5**	**6**

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.*

[(2)] *$0.5m (2017: $0.5m) is expected to be settled more than 12 months from the reporting date for the consolidated entity and the Company.*

12. Debt securities on issue

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Medium term notes	2,855	2,206	2,855	2,206
Term borrowings	4,620	4,376	-	-
Total debt securities on issue [1]	**7,475**	**6,582**	**2,855**	**2,206**

Footnote:

[1] $5,458m (2017: $5,060m) is expected to be settled more than 12 months from the reporting date.

13. Other liabilities

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Payables to related parties	10	12	10	13
Other	7	4	7	3
Total other liabilities [1]	**17**	**16**	**17**	**16**

Footnote:

[1] $17m (2017: $16m) for the consolidated entity and the Company are expected to be paid within 12 months after the reporting date.

14. Subordinated debt

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Floating rate subordinated notes - related party[1]	249	249	249	249
Total subordinated debt	**249**	**249**	**249**	**249**

Footnote:

[1] The balance of $249m includes net transaction cost adjustment. AMP Bank issued subordinated debt to AMP Limited of $250m in September 2017 and is expected to be settled more than 12 months from the reporting date.

15. Impact of adopting AASB 9

a) The table below reconciles the impact of the adoption of AASB 9 as at 1 January 2018 on reserves and retained earnings for the consolidated entity and the Company.

	Retained Earnings $m	Fair Value reserve $m	Total Equity $m
Closing balance under AASB139 (31 December 2017)	498	-	1018
Reclassification of Debt securities from amortised cost to FVOCI	-	4	4
Recognition of Expected Credit Losses under AASB9 for Loans and Advances	(12)	-	(12)
Tax impact	4	(1)	3
Opening balance under AASB9 (1 January 2018)	**490**	**3**	**1,013**

b) The following table shows the original classification and measurement categories in accordance with AASB 139 and the new classification categories under AASB 9 for the Bank's financial assets for the consolidated entity and the Company.

Financial Asset	Original classification under AASB 139	New Classification under AASB9	Original Carrying amount under AASB139 $m	Transition adjustment $m	New carrying amount under AASB9 $m
Due from banks	Loans and receivables	Amortised Cost	284	-	284
Derivative financial assets	FVTPL*	FVTPL*	23	-	23
Debt securities	HTM**	FVOCI	2,528	4	2,532
Loans and advances	Loans and receivables	Amortised Cost	19,549	(12)	19,537

**FVTPL – Fair value through profit and loss*
***HTM – Held to maturity*

Adoption of AASB 9 did not result in any change in the classification of financial liabilities for the consolidated entity and the Company.

15. Impact of adopting AASB 9 (continued)

c)The following table reconciles the closing provision for impairment for loans and advances in accordance with AASB 139 as at 31 December 2017 to the opening ECL provision determined in accordance with AASB 9 as at 1 January 2018 for the consolidated entity and the Company.

	Provision for Impairment under AASB139 at 31 December 2017 $m	Transition adjustment $m	Expected credit losses under AASB9 at 1 January 2018 $m
Individual Provision	(7)	(7)	(14)
Collective Provision	(10)	(5)	(15)
Total	**(17)**	**(12)**	**(29)**

16. Dividends and distributions

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Dividends and distributions paid during the year				
Final dividend paid				
Prior year unfranked final dividend per share of 1.22 cents (2017: 0.75 cents) paid in current year	13	8	13	8
Interim dividend paid				
Unfranked interim dividend per share of 1.13 cents (2017: Nil) paid in current year	12	-	12	-
Distributions paid - capital notes				
Distributions paid - capital notes	9	9	9	9
Total dividends and distributions paid during the period	**34**	**17**	**34**	**17**
Dividends proposed but not recognised				
Unfranked dividend per share of 7.03 cents (2017: 1.22 cents unfranked)	75	13	75	13
Total dividends proposed but not recognised	**75**	**13**	**75**	**13**

17. Contributed equity

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
Ordinary shares [(1)]	374	374	374	374
Capital notes [(2)]	140	140	140	140
Total contributed equity at the end of the year	**514**	**514**	**514**	**514**
Movements in ordinary shares				
Balance at the beginning of the period	374	344	374	344
Issue of ordinary share	-	30	-	30
Balance at the end of the period :- 1,066,344,139 (December 2017: 1,066,344,139) ordinary shares fully paid	374	374	374	374
Movements in capital notes				
Balance at the beginning of the year	140	140	140	140
Balance at the end of the year	140	140	140	140
Total contributed equity at the end of the year	**514**	**514**	**514**	**514**

Footnotes:

(1) Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares have no par value. The authorised share capital of the Company is 1066.34m shares (2017: 1066.34m).

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

(2) The Company has issued capital notes to AMP Limited as follows:

- *$100m of capital notes with a face value of $10,000 per note issued in March 2015. The Company has the right but not the obligation to redeem the notes on 27 March 2020 or, subject to certain conditions, at a later date.*
- *$40m of capital notes with a face value of $100 per note issued in November 2015. The Company has the right but not the obligation to redeem the notes on 22 December 2021 or, subject to certain conditions, at a later date.*

The capital notes are non-cumulative, subordinated, perpetual and unsecured. Distributions on the capital notes are at the absolute discretion of the Company. In the event that APRA determines the Company to be non-viable, the Notes may be written off. In a winding up of the Company, the capital notes will rank ahead of ordinary shares, but behind all other creditors for payment.

AMP Bank Limited
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18. Commitments

	Consolidated		Company	
	Dec 2018	Dec 2017	Dec 2018	Dec 2017
	$m	$m	$m	$m
Bank	2,003	2,315	2,003	2,315
Securitisation vehicles	1,393	1,291	1,393	1,291
Total commitments to provide credit facilities [1] [2] [3]	**3,396**	**3,606**	**3,396**	**3,606**

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.

[2] Commitments are classified as stage 1 for ECL calculation.

[3] Commitments are considered as performing based on the Bank's internal credit grades

19. Auditor's remuneration

	Consolidated		Company	
	Dec 2018	Dec 2017	Dec 2018	Dec 2017
	$'000	$'000	$'000	$'000
Amounts received or due and receivable by the auditors of AMP Bank Limited for: [1]				
Audit Services				
- Securitisation vehicles	157	156	-	-
Other audit services [2]	252	489	252	489
Assurance related services[3]	106	36	106	36
Total amounts received or due and receivable by the auditors of AMP Bank Limited	**515**	**681**	**358**	**525**

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.

[2] Other audit fees relate to assurance services provided by the Company's auditor in relation to the Company's compliance with regulatory obligations.

[3] Assurance related services relate to agreed upon procedures engagements in relation to the Company's assessment of the content of the APG 223 residential mortgage lending review and IFRS 9 impact assessment.

20. 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
Patricia Akopiantz (Chairperson)	
Sally Bruce	
Gordon Lefevre	
Wendy Thorpe	
Peter Varghese	(appointed on 09 May 2018)
Trudy Vonhoff	
Holly Suzanna Kramer	(resigned 08 May 2018)

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 18 $'000	Written off $'000	Net advances $'000	Balance at 31 Dec 18 $'000	Interest charged $'000	Interest not charged $'000	Number in group
Key management personnel and their related parties[(1)]	1,619	-	772	2,391	55	-	2

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*

20. 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.

	Short-term benefits	Post employment benefits	Share-based payments	Other long-term benefits[3]	Termination benefits	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Non-executive directors[1]						
Dec 2018	2,016	47	1,317	15	-	3,395
Dec 2017[2]	3,152	95	1,907	(36)	-	5,118
Key management personnel excluding non-executive directors						
Dec 2018	840	59	-	-	-	899
Dec 2017[2]	853	52	-	-	-	905
All key management personnel						
Dec 2018	2,856	106	1,317	15	-	4,294
Dec 2017[2]	4,005	147	1,907	(36)	-	6,023

Footnotes:

[1] *Non-executive directors are not entitled to short-term incentive payments. Short term benefits include fees and allowances only.*
[2] *This represents the amount paid and payable to those individuals considered key management personnel and disclosed as such in 2017 financial report.*
[3] *Other long-term benefits includes reversals of long-service-leave provisions where individuals are no longer employees of AMP and their respective length of service requirements have not been met.*

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 $41m for this service (2017: $38m). 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 guarantee fee of $1m each year to AMP Group Holdings Limited.

(iv) AMP Life Limited provides the Company with funding sourced from call deposit and term deposit facilities by superannuation customers of AMP Life Limited. As at 31 December 2018, the balance including interest is $1,726m (Dec 2017: $1,948m). These deposits are provided on normal commercial terms. AMP Life provided the Company with a short term deposits totalling $282m as at 31 December 2018 (Dec 2017: $347m). The interest expense to AMP Life Limited for FY18 was $41m (FY17: $47m). The commissions paid to AMP aligned advisers for FY18 was $10m (FY17:$ 12m).

(v) As at 31 December 2018 AMP Capital Investors Ltd provided the Bank with $304m (Dec 2017: $298m) short term deposits. The Company pays market rates on the short term deposits. The interest expense to AMP Capital Investors Ltd for FY18 was $6.4m (FY17: $6.2m).

(vi) As at 31 December 2018 AMP Financial Planning Pty Limited and Australian Securities Administration Limited provided the Bank with $5m (Dec 2017: $5m) short term deposits. The Company pays market rates on the short term deposits. The interest expense to AMP Financial Planning and Australian Securities Administration Limited for FY18 was $0.1m (FY17: $0.1m).

(vii) The Company has amounts due to controlled securitisation trusts of $4,576m as at 31 December 2018 (Dec 2017: $4,330m).

(viii) 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. Related party disclosures (continued)

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

(ix) The Company holds a $2.81b deposit (2017: $2.31b) from NMMT Limited consisting of at call deposits from customers of NMMT Limited.

(x) As a part of changes to the Buyer of Last Resort (planner registers held under buy back arrangements within the AMP Limited Group) calculation, AMP Financial Planning Pty Limited (AMPFP) has agreed to provide an indemnity to AMP Bank. AMPFP has indemnified AMP Bank against any loss or liability, including all charges, costs and expenses it incurs, in relation to any loan agreement between certain specified borrowers and AMP Bank.

(xi) As at 31 December 2018, the Company has an amount of $6.6m (2017: $9.4m) payable to AMP Finance Pty Ltd in relation to an intercompany facility.

(xii) Company has a subordinated debt issued to AMP Limited on which the AMP Bank pays interest at a rate of 3 month BBSW plus 180 basis points. As at 31 December 2018, the balance including interest is $251m (2017: $251m).

21. Notes to the statement of cash flows

	Consolidated		Company	
	Dec 2018 $m	Dec 2017 $m	Dec 2018 $m	Dec 2017 $m
a) Reconciliation of cash and cash equivalents:				
Assets				
Cash and cash equivalents	24	-	24	-
Due from banks	365	284	318	250
Balance at the end of the year	**389**	**284**	**342**	**250**
b) Reconciliation of net profit after tax to the net cash flows from (used in) operating activities:				
Net profit after tax	151	137	151	137
Add/(deduct) non-cash items:				
Unrealised gains and losses	(5)	2	(5)	2
Impairment expenses	13	5	13	5
Amortisation expenses	41	37	35	32
Increase in interest receivable	(2)	(12)	(2)	(12)
Increase in other assets	-	(2)	-	(14)
Decrease in interest payable	17	3	16	2
Increase in deferred tax assets	-	(8)	-	4
(Decrease) / increase in provisions	(1)	3	(1)	3
(Decrease) / increase in intercompany tax payable to head entity	(8)	25	(8)	25
Operating cash flow items not included in profit	(1,143)	(826)	(1,155)	(837)
Net cash (used in) / provided operating activities	**(937)**	**(636)**	**(956)**	**(653)**
(c) Financing arrangements				
- Available	15,914	14,833	15,914	14,833
- Used	(3,317)	(2,553)	(3,317)	(2,553)
- Unused	**12,597**	**12,280**	**12,597**	**12,280**
(d) Changes in Liabilities arising from financing activities				
Balance at the beginning of the year	6,831	5,151	2,455	2,054
Cashflow from:				
- Proceeds from Issuance of Subordinated debt	-	250	-	250
- Redemption of Subordinated debt	-	(150)	-	(150)
- Proceeds from loans due to controlled entities	-	-	243	1,291
- Issue of Debt securities on issue	6,237	4,644	1,246	1,150
- Redemption of debt securities on issue	(5,354)	(3,072)	(600)	(850)
Other	10	8	6	(12)
Balance at the end of the year	**7,724**	**6,831**	**3,350**	**3,733**

22. Bank controlled entity holdings

Details of controlled entities are as follows:

Name of entity	Country of incorporation	Share type	Footnote	% HOLDINGS Dec 2018	Dec 2017
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 2008-1R Trust	Australia	-	(1)	100	100
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)	90	90
Progress 2014-2Trust	Australia	-	(1)	90	90
Progress 2016-1Trust	Australia	-	(1)	90	90
Progress 2017-1Trust	Australia	-	(1)	90	90
Progress 2017-2Trust	Australia	-	(1)	90	90
Progress 2018-1Trust	Australia	-	(1)(2)	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 commenced in June 2018.*

23. Risk management and financial instruments information

Financial Risk Management

AMP Bank adopts the AMP Group Financial Risk Management (FRM) framework which outlines how financial risk management activities are to be conducted throughout the AMP Limited and the entities it controlled during the year ended 31 December 2018 ("AMP Group"). The Group defines financial risk as the potential for variance of performance against an expected outcome resulting from participation in financial markets. The Bank extends this to include credit risk arising from its Australian banking activities which are limited to residential mortgage lending and practice finance loans to AMP advisers.

a) Board Governance

The Bank Board retains ultimate responsibility for risk management at the Bank. The Board's main risk objective is to provide approval and oversight of the Enterprise Risk Management (ERM) framework. Key risk management responsibilities include setting the Bank's Risk Appetite, assessing, monitoring, reviewing and objectively challenging the effectiveness of the system of risk, compliance and balance sheet management including the approval of the Bank's Risk Management Strategy (RMS), its Capital Management Framework and relevant risk policies.

Board Committees serve as a source of specialised expertise in a defined area. AMP Bank Limited has two board committees: the Board Audit Committee (BAC) and the Board Risk Committee (BRC). These committees support the Board in fulfilling its responsibilities by providing oversight, review and monitoring of various key risk management practices within AMP Bank. The BRC assists the Board by providing objective oversight of the implementation and operation of the Bank's ERM framework whereas the BAC assists the Board by providing an objective review of the effectiveness of AMP Bank's financial reporting and ERM framework.

b) Executive Governance

Bank Asset & Liability Committee (Bank ALCO) – oversees and monitors risks relating to asset and liability management within AMP Bank, including setting and managing relevant risk limits and monitoring compliance with relevant prudential standards. Bank ALCO also oversees and monitors the Bank's regulatory capital and target surplus position. Stress Testing Steering Committee (STSC) – oversees the ICAAP (Internal Capital Adequacy Assessment Process), Stress Testing and the Stress Testing Working Group, which is a sub-group of STSC.

Credit Risk Committee - oversees and monitors retail credit risk arising primarily from its residential mortgage lending within Australia but also through the provision of practice finance loans to AMP planners. Credit Risk Committee 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 approves 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 reviews and monitors emerging material risks that can impact the Bank's credit risk.

Product & Pricing Committee (PPC) - ensures the effective management and governance of product risk for AMP Bank. Product risk is defined as the risk of product stagnation whereby on-sale products are not competitive. This includes managing interest rates, design features of and marketing campaigns for retail banking products. Specific responsibilities include anticipate and respond to changing customer behaviour or competitor activity; product specifications, design features and new product business cases; pricing for all retail products including interest rates, fees and charges; product profitability and portfolio mix and yield; marketing campaigns / promotions outside of agreed parameters and commission structures for products and distributor groups. The PPC is also responsible for the new business mix in line with AMP Bank's Risk Appetite.

Business Risk & Compliance Committee (BRCC) - monitors, reviews and acts as a decision making committee for the implementation of effective operations risk and compliance management practices, processes and systems within the Bank, taking into account business goals and strategic objectives. BRCC also maintains oversight over the Bank's ERM framework. Specific responsibilities include: promoting a risk aware culture; maintaining the Bank's Risk Appetite Statement and RMS; ensuring active management of operational risk within risk appetite; considering the impact of the Bank's strategy on its operational risk and compliance environment; reviewing and monitoring the current risk and control environment including emerging material operational and compliance issues; monitoring the implementation and effectiveness of the Bank's ERM practices; and reviewing and endorsing the Bank's Internal Audit plan.

c) Risk and mitigation

Financial risks arising in the Bank include market risk (principally non traded interest rate risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the Enterprise Risk Management Policy and individual policies for each risk category.

23. Risk management and financial instruments information (continued)

c) Risk and mitigation (continued)

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

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, including foreign exchange rates, interest rates and credit spreads.

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

Market risk	Exposures	Management of exposures and use of derivatives
Interest rate risk The risk of an impact on the Bank's profit after tax and equity arising from fluctuations of the fair value or future cash flows of financial instruments due to changes in market interest rates. Interest rate movements could result from changes in the absolute levels of interest rates, the shape of the yield curve, the margin between yield curves and the volatility of interest rates.	Interest rate risk from mismatches in the repricing terms of assets and liabilities (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. AMP' Limited's Group Treasury function (Bank Treasury) manages the exposure in the Bank by maintaining a net interest rate risk position within the limits delegated and approved by the AMP Bank Board.
Currency risk The risk of an impact on the Bank's profit after tax and equity arising from fluctuations of the fair value of a financial asset, liability or commitment due to changes in foreign exchange rates.	The Bank does not maintain unhedged foreign exchange exposures with the exception to the exposures arising from the USD collateral posted for cleared swaps.	There is no trading in currencies, and any funding raised in a non-domestic currency is immediately hedged into the functional currency.

Interest rate risk sensitivity analysis

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

- Shows the direct impact of a reasonably possible change in interest rate and is not intended to illustrate a remote, worst case stress test scenario.
- Assumes that all underlying exposures and related hedges are included and the change in variable occurs at the reporting date.
- Does not include the impact of any mitigating management actions over the period to the subsequent reporting date.
- Is performed on the basis that the categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

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 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.

23. Risk management and financial instruments information (continued)

d) Market risk (continued)

	Change in variables	Dec 2018 Impact on profit after tax Increase (decrease) $m	Dec 2018 Impact on equity Increase (decrease) $m	Dec 2017 Impact on profit after tax Increase (decrease) $m	Dec 2017 Impact on equity Increase (decrease) $m
Consolidated	+100 basis points	-	(13)	-	24
	-100 basis points	-	10	-	(31)
Company	+100 basis points	-	(13)	-	24
	-100 basis points	-	10	-	(31)

e) Liquidity and refinancing risk

Liquidity risk is the risk that the Bank is not able to meet its obligations as they fall due because of an inability to liquidate assets or obtain adequate funding when required. While refinancing risk is the risk the Bank is not able to refinance its liabilities or its ongoing debt requirements on appropriate terms and pricing.

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 reliable, stable and diverse funding sources.

AMP Bank operated under APRA's Basel III liquidity standard, APS 210, which requires the Bank to maintain a Liquidity Coverage Ratio (LCR) of at least 100% and from 1 January 2017 a Net Stable Funding Ratio(NSFR) of at least 100%. The Bank is in compliance with the LCR and NSFR requirement.

Funding mix

The Bank's liabilities comprise a mix of customer deposits, short and long term wholesale funding, securitisation and hybrid capital instruments. The Bank manages its funding mix and liquidity profile within risk appetite settings to enable it to respond to changing market and regulatory conditions.

Contractual maturity of financial liabilities on an undiscounted basis

The tables on the following page show cashflows associated with financial liabilities including derivative liabilities within relevant contractual maturity groupings.

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 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.

23. Risk management and financial instruments information (continued)

e) Liquidity and refinancing risk (continued)

Consolidated Dec 2018	Up to 1 year or no term $m	1-5 years $m	Over 5 years $m	Total $m
Non-derivative financial liabilities				
Due to banks	(288)	-	-	(288)
Deposits and other borrowings	(13,708)	(83)	-	(13,791)
Debt securities on issue	(2,192)	(4,868)	(980)	(8,040)
Subordinated debt	(9)	(38)	(287)	(334)
Derivative financial instruments				
Interest rate swaps	-	(22)	(13)	(35)
Commitments				
Credit-related commitments [1]	(3,396)	-	-	(3,396)
Total undiscounted financial liabilities and commitments	**(19,593)**	**(5,011)**	**(1,280)**	**(25,884)**
Dec 2017	**$m**	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Due to banks	(740)	-	-	(740)
Deposits and other borrowings	(13,823)	(41)	-	(13,864)
Debt securities on issue	(1,705)	(4,322)	(1,112)	(7,139)
Subordinated debt	(9)	(35)	(294)	(338)
Derivative financial instruments				
Interest rate swaps	(5)	(19)	(22)	(46)
Commitments				
Credit-related commitments [1]	(3,606)	-	-	(3,606)
Total undiscounted financial liabilities and commitments	**(19,888)**	**(4,417)**	**(1,428)**	**(25,733)**

Footnote

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

23. Risk management and financial instruments information (continued)

e) Liquidity and refinancing risk (continued)

Company Dec 2018	Up to 1 year or no term $m	1-5 years $m	Over 5 years $m	Total $m
Non-derivative financial liabilities				
Due to banks	(288)	-	-	(288)
Deposits and other borrowings	(13,708)	(83)	-	(13,791)
Debt securities on issue	(688)	(2,327)	-	(3,015)
Due to controlled entities	(1,504)	(2,541)	(980)	(5,025)
Subordinated debt	(9)	(38)	(287)	(334)
Derivative financial instruments				
Interest rate swaps	-	(22)	(13)	(35)
Commitments				
Credit-related commitments[(1)]	(2,003)	-	-	(2,003)
Total undiscounted financial liabilities and commitments	**(18,200)**	**(5,011)**	**(1,280)**	**(24,491)**
Dec 2017	**$m**	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Due to banks	(740)	-	-	(740)
Deposits and other borrowings	(13,823)	(41)	-	(13,864)
Debt securities on issue	(559)	(1,799)	-	(2,358)
Due to controlled entities	(1,146)	(2,523)	(1,112)	(4,781)
Subordinated debt	(9)	(35)	(294)	(338)
Derivative financial instruments				
Interest rate swaps	(5)	(19)	(22)	(46)
Commitments				
Credit-related commitments[(1)]	(2,315)	-	-	(2,315)
Total undiscounted financial liabilities and commitments	**(18,597)**	**(4,417)**	**(1,428)**	**(24,442)**

Footnote

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

23. Risk management and financial instruments information (continued)

f) Credit risk

The Board is responsible for setting AMP Bank Policy. The Group Executive, AMP Bank holds delegated authority from the Board and operates the Bank's Credit Risk Committee (CRC). The CRC's primary objective is to oversee and ensure effective oversight, monitoring and management and participate in the governance of Credit Risks for AMP Bank

Credit delegations are controlled by the Head of Credit, Policy and Oversight and allocated based on experience and performance. Compliance monitoring is in place to ensure adherence to the delegations.

The Bank's credit policies are compliant with APS 220 and APG 223 (for residential mortgages) with ongoing strengthening of risk systems and processes. Credit risk in the Bank is primarily through secured housing loans lending and practice finance lending to aligned AMP advisers.

The Bank is licensed under the National Consumer Credit Protection Act which is regulated by ASIC and complies with its responsible lending obligations.

For residential mortgages, the bank undertakes a detailed credit assessment of the borrower, the ability of the borrower to meet their contractual obligations of repayment and a review of acceptable security. The Bank reduces its exposure to default losses via the requirement for lenders mortgage insurance where the loan as a proportion of value exceeds 80%, the securities are located in high risk areas or where the loan is securitised.

For practice finance loans, financial analysis of AMP advisers practice is undertaken to perform a thorough credit evaluation in accordance with defined policies and procedures which outline assessment criteria, the frequency by which counterparties are reviewed, and eligible forms of collateral (which are primarily in the form of the recurring cashflows of the practice).

Wholesale counterparty credit risk is monitored by the Bank ALCO. Wholesale counterparty risk arises where the Bank is exposed to the creditworthiness of other financial institutions, governments and other counterparties as a consequence of its funding, liquidity management and hedging of interest rate and foreign exchange risks. Credit limits for counterparties are based on external ratings provided by the rating agencies, consistent with policies of the AMP Group. The Bank seeks to mitigate counterparty credit risk through diversification (reducing concentration or credit risk), the use of netting arrangements and the receipt of collateral where it is available.

The AMP Bank wholesale counterparty credit risk policy sets out how counterparty credit risk is managed and is aligned with the AMP Bank Risk Appetite Statement. The policy establishes a framework of identifying, assessing, managing, quantifying and escalating counterparty credit risks, including large exposures and exposures to related entities. Breaches of the policy are escalated to senior management, Bank ALCO, and the Chair of the Board Risk Committee. The Board, Group senior management and APRA are also notified.

23. Risk management and financial instruments information (continued)

f) Credit risk (continued)

Impairment assessment

Definition of default

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

The Bank's internal risk grading and PD estimation process

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

- The Bank's residential mortgage book is a portfolio with a low default history so point-in-time (PIT) benchmark PDs are utilised across the portfolio by LVR band and time since origination.

  Internal risk grades for residential Mortgage book are as follows:

Internal credit rating grade	**Internal credit rating grade description**
Performing	Not in arrears in the past 6 months
Past due but not impaired	Accounts in arrears but have not been past 90 days in the last 6 months
Impaired	90 days past due over the past six months

- For practice finance loans a Probability of Default risk grade model is applied that includes weighted risk factors such as Interest Coverage Ratio, Revenue growth, Licence compliance Rating, Experience in business and arrear levels. Practices with outstanding annual reviews are also downgraded. Credit judgement may be applied to arrive at the final risk grade.

Internal risk grades for practice finance book are as follows:

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

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

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

Exposure at default (EAD)

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

23. Risk management and financial instruments information (continued)

f) Credit risk (continued)

Loss given default (LGD)

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

For practice finance loans, the LGD is calculated via assumptions to the reduction in valuations of practices (being a multiple of their recurring cashflows) in the event of default, such as client run-off or deterioration in valuation due to compliance issues.

Grouping of financial assets for ECL calculation

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

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

Forward looking information

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

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

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

Write-offs

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

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 2018 was $149m (2017: $116m with an AA- rated counterparty) with a currently AA- rated counterparty.

In order to avoid excessive concentrations of risk, the Bank's policies and standards include specific limits and guidelines 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.

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 $26,245m (2017: $25,990m). Maximum credit exposure includes loans and advances of $20,089m (2017: $19,549m), cash equivalents and due from banks of $389m (2017: $284m), debt securities of $2,355 (2017: $2,528m), derivative financial assets of $16m (2017: $23m) and loan commitments of $3,396m (2017: $3,606m).

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

23. Risk management and financial instruments information (continued)

f) Credit risk (continued)

Exposure to credit risk (continued)
Please refer to Note 7 for additional information regarding the credit quality for Debt securities based on the Bank's internal credit grades and year-end stage classification.

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 20% of the Bank's residential loan portfolio is externally securitised and all loans in securitisation trusts are loans that have LMI thereby further mitigating the risk. The Bank's CRC and BRC oversee trends in lending exposures and compliance with the Risk Appetite Statement. The Bank secures its housing loans with mortgages over relevant properties and as a result manages credit risk on its loans with conservative lending policies and particular focus on the 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 Dec 2018	New business Dec 2018	Existing business Dec 2017	New business Dec 2017
0 - 50	18%	15%	18%	12%
51 - 60	12%	10%	12%	12%
61 - 70	18%	16%	18%	17%
71 - 80	37%	44%	36%	47%
81 - 90	11%	8%	12%	6%
91 - 95	4%	7%	4%	6%
> 95	0%	0%	0%	0%

Please refer to note 9 for additional information regarding the credit quality for Housing loans based on the Bank's internal credit grades and year-end stage classification.

Practice Finance loans
Practice Finance loans are loans to AMP aligned advisers' practices and secured against the recurring revenues generated by the practices.

Please refer to note 9 for additional information regarding the credit quality for Practice finance Loans based on the Bank's internal credit grades and year-end stage classification.

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 $165m (2017: $88m) worth of loans during the year, that otherwise would be past due or impaired.

Collateral
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. Collateral deposits is obtained against derivative assets, depending on the creditworthiness of the counterparty and / or the nature of the transaction.

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 bank has legally enforceable right to offset and there is intention to settle the assets and liabilities 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(l).

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.

The table below shows the gross values and the amounts that have been offset on the balance sheet. The Bank has applied netting to certain centrally cleared derivatives which are deemed to satisfy the AASB 132 Financial Instruments: Presentation requirements.

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 $7m (2017: $6m) of collateral deposits (due to other financial institutions) and $44m (2017: $13m) of collateral loans (due from other financial institutions) relating to derivative assets and liabilities.

	Consolidated			Company		
	Gross amount	Amount offset	Net amount reported on balance sheet	Gross amount	Amount offset	Net amount reported on balance sheet
Dec 2018	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Derivative financial assets	18	2	16	18	2	16
Total Assets	**18**	**2**	**16**	**18**	**2**	**16**
Derivative financial liabilities	34	2	32	34	2	32
Total Liabilities	**34**	**2**	**32**	**34**	**2**	**32**

	Consolidated			Company		
	Gross amount	Amount offset	Net amount reported on balance sheet	Gross amount	Amount offset	Net amount reported on balance sheet
Dec 2017	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Derivative financial assets	23	-	23	23	-	23
Total Assets	**23**	**-**	**23**	**23**	**-**	**23**
Derivative financial liabilities	27	-	27	27	-	27
Total Liabilities	**27**	**-**	**27**	**27**	**-**	**27**

23. Risk management and financial instruments information (continued)

h) Accounting for hedges

Derivative transactions may qualify either as fair value hedges or cash flow hedges, where the Bank qualifies for hedge accounting. The Bank's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1(l), 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 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 to manage interest rate risks and many of the swaps are cash flow hedges for accounting purposes.

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

The following tables show the notional amounts of derivatives designated in cash flow hedge relationships in time bands based on the maturity of the derivatives.

Dec 2018 Consolidated	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	over 5 years $m	Total
Interest rate swaps					
Pay fixed	145	340	1,197	823	2,505
Receive fixed	2,132	2,766	396	133	5,427

Dec 2017 Consolidated	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	over 5 years $m	Total
Interest rate swaps					
Pay fixed	195	576	1,344	480	2,595
Receive fixed	1,772	3,113	647	-	5,532

Dec 2018 Company	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	over 5 years $m	Total
Interest rate swaps					
Pay fixed	145	340	1,197	823	2,505
Receive fixed	2,132	2,766	396	133	5,427

Dec 2017 Company	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	over 5 years $m	Total
Interest rate swaps					
Pay fixed	195	576	1,344	480	2,595
Receive fixed	1,772	3,113	647	-	5,532

$nil (2017: $nil) was recognised in the Income statement due to hedge ineffectiveness from cash flow hedges.

23. Risk management and financial instruments information (continued)

h) Accounting for hedges (continued)

The following schedule shows, as at the reporting date, the notional amounts of derivatives designated in cash flow hedge relationships as well as the related carrying amounts.

	Consolidated			Company		
Dec 2018	**Notional amounts $m**	**Fair Value assets $m**	**Fair Value liabilities $m**	**Notional amounts $m**	**Fair Value assets $m**	**Fair Value liabilities $m**
Interest rate swaps	7,932	5	19	7,932	5	19
Total	**7,932**	**5**	**19**	**7,932**	**5**	**19**

	Consolidated			Company		
Dec 2017	**Notional amounts $m**	**Fair Value assets $m**	**Fair Value liabilities $m**	**Notional amounts $m**	**Fair Value assets $m**	**Fair Value liabilities $m**
Interest rate swaps	8,127	18	11	8,127	18	11
Total	**8,127**	**18**	**11**	**8,127**	**18**	**11**

24. Fair Values

The following table summarises the carrying amounts and fair values of financial instruments carried at amortised cost.

Consolidated	Carrying amount Dec 2018 $m	Fair value Dec 2018 $m	Carrying amount Dec 2017 $m	Fair value Dec 2017 $m
Financial assets				
Cash and cash equivalents	24	24	-	-
Due from banks	365	365	284	284
Debt securities[(1)]	-	-	2,528	2,532
Loans and advances	20,089	20,091	19,549	19,544
Total financial assets	**20,478**	**20,480**	**22,361**	**22,360**
Financial liabilities				
Due to banks	288	288	740	740
Deposits and other borrowings	13,670	13,667	13,753	13,751
Debt securities on issue	7,475	7,437	6,582	6,628
Subordinated debt	249	246	249	252
Total financial liabilities	**21,682**	**21,638**	**21,324**	**21,371**

Footnote:
(1) *Debt securities are now measured at fair value and therefore not included in this table for 2018*

All financial instruments carried at amortised cost are categorised as Level 2 except for loans and advances which is categorised at Level 3 (2017: all Level 2).

Fair value measurements recognised on the statement of financial position

Consolidated	2018				2017			
	Carrying amount	Fair value Level 1	Fair value Level 2	Total	Carrying amount	Fair value Level 1	Fair value Level 2	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets								
Derivative financial assets	16	-	16	**16**	23	-	23	**23**
Debt securities	2,355	1,977	378	**2,355**	-	-	-	**-**
Total financial assets	**2,371**	**1,977**	**394**	**2,371**	**23**	**-**	**23**	**23**
Financial liabilities								
Derivative financial liabilities	32	-	32	**32**	27	-	27	**27**
Total financial liabilities	**32**	**-**	**32**	**32**	**27**	**-**	**27**	**27**

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Refer to Note 1(l) for fair value estimation methods.

The fair value measurement technique of each class of instrument is described below.

Cash and Cash equivalents and Due from banks
The carrying value of cash and cash equivalents and amounts due from other banks approximates their fair value as they are short-term in nature.

Debt securities
The estimated fair value of debt securities is determined with reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available.

Financial instruments included in this category are liquid government and semi-government bonds, financial institution and corporate bonds.

For debt securities 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.

Financial instruments included in this category are promissory notes and certificates of deposit.

24. Fair Values (continued)

Loans and advances
The fair value of loans and advances that are priced based on a variable rate are assumed to be equal to its carrying value. The fair value of all other loans and advances represents the discounted amount of estimated future cash flows expected to be received based on the maturity profile of the loans. The discount rate applied is based on a current yield curve appropriate for similar types of loans and advances at the reporting date.

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 represents the discounted amount of estimated future cash flows expected to be paid based on the residual maturity of these liabilities. The discount rate applied is based on a current yield curve appropriate for similar types of deposits and borrowings at the reporting date.

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.

Derivatives assets and liabilities
The fair value of derivatives assets and liabilities, including foreign exchange contracts and interest rate swaps are determined using the discounted cash flow valuation technique.

Fair value hierarchy

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 arm’s 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.

25. 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 and capital buffers 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 APS 110 are 4.5%, 6.0% and 8.0% respectively. These minimum capital ratios are referred to as the Prudential Capital Requirements.

In addition to the Prudential Capital Requirements described above, banks are also required to hold a Regulatory Capital Buffer (RCB) comprising the aggregate of:

- A capital conservation buffer, equal to 2.5% of risk weighted assets; and
- A countercyclical capital buffer, which may vary over time in response to market conditions. This buffer may range between zero and 2.5% of risk weighted assets and, for Australian exposures, was determined by APRA to be zero effective 1 January 2016.

Where an individual ADI does not hold sufficient capital to meet its RCB, the ADI would be subject to constraints on its ability to make capital and bonus distributions.

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 ratios throughout the 2018 financial year were in compliance with both APRA and the Bank Board minimum capital requirements and buffers. 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 2018 were as follows:

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

26. Events occurring after the reporting date

a) In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission) to investigate conduct, practices, behaviour or business activities by financial services entities, including AMP group, that may amount to misconduct or that may have fallen below community standards and expectations. During the course of 2018, the Royal Commission has conducted a number of public hearings and required the production of documents as part of its inquiry.

The final report of the Royal Commission was publicly released on 4 February 2019 and made:

- 76 policy recommendations which may result in legislative and regulatory change; and
- a number of findings of actual or possible misconduct (including breaches of law) or conduct which does or may fall below community standards and expectations in relation to participants in the financial services industry, including AMP group.

AMP Bank is considering the various matters raised in the Commissioner's final report.

b) On 4 February 2019, the Bank entered into a deed of indemnity with AMP Group Holdings Limited (AMPGH) under which AMPGH agreed to unconditionally and irrevocably indemnify the Bank for losses in excesses of those provided for as at 31 January 2019 suffered in connection with loans provided to an authorised representative of an AMP licensee (AMP Adviser) which relate to a change to law, regulation or a change an AMP Licensee makes to its arrangements with AMP Advisers or matters identified in the course of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

c) On 12 February 2019, the Company declared a final dividend of $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 2018

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

Sydney, 14 February 2019

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Independent Auditor's Report to the Member of AMP Bank Limited

Opinion

We have audited the financial report of AMP Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 31 December 2018;
- the Group consolidated and Company income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

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

a) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2018 and of their financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Information Other than the Financial Report and Auditor's Report Thereon

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Clare Sporle
Partner
Sydney
14 February 2019