AMP BANK LIMITED

ABN 15 081 596 009

Directors' Report and Financial Report for the year ended 31 December 2010

AMP BANK LIMITED

Corporate Information

Directors
Neville Cox (Chairman)
Michael Lawrence (Managing Director)
Paul Fegan (appointed 1 April 2010)
Craig Meller
David Morris
Paul Sainsbury (resigned 25 January 2011)
Nora Scheinkestel

Company Secretary
Deborah Schmidt (resigned 28 January 2011)
Pauline Gill (appointed 2 February 2011)
Vicki Vordis

Registered Office
Level 24,
33 Alfred Street
Sydney NSW 2000

Principal Office
Level 4,
2-12 Macquarie Street
Parramatta NSW 2123

Auditors
Ernst & Young
680 George Street
Sydney NSW 2000

AMP BANK LIMITED

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AMP BANK LIMITED

Directors' Report

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 at the end of or during the year ended 31 December 2010.

Directors

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

Neville Cox (Chairman)
Michael Lawrence (Managing Director)
Paul Fegan (appointed 1 April 2010)
Craig Meller
David Morris
Paul Sainsbury (resigned 25 January 2011)
Nora Scheinkestel

Principal activities

The principal activities of the Bank comprise the provision of retail banking services including deposit taking and mortgage finance.

Review of operations and results

The result for the year ended 31 December 2010 was a consolidated net profit after tax of $44m (2009: $26m).

Dividends

No dividends have been paid, declared or recommended during the year.

Significant changes in the state of affairs

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

Environmental regulations

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

Events occurring after the reporting date

Subsequent to 31 December 2010, customers of the Bank were affected by severe flooding in Queensland. Whilst this does not have an impact on the Bank's position at 31 December 2010, the Bank is continuing to assess the financial impact of the floods, including the impact on loan loss provisions following year end.

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

Likely developments and expected results

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

AMP BANK LIMITED

Directors' Report (continued)

Indemnification and insurance of directors and officers

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

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

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

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

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

Audit Committee

The AMP Bank Audit Committee (the Audit Committee) has responsibility for overseeing and reviewing specific issues and providing recommendations to the AMP Bank Board (the Board).

The Audit Committee is chaired by David Morris and the membership comprises a majority of independent non-executive directors. The Audit Committee operates under Terms of Reference and delegations approved by the Board and the primary function of the Audit Committee is to assist the Board in fulfilling its responsibilities, by reviewing:

- the Bank's financial statements ;
- the performance and independence of external audit; and
- the effectiveness of the business risk management framework including compliance, internal controls and the assurance provided by internal audit.

Rounding

The Company is an entity of the kind referred to in the Australian Securities and Investments Commission (ASIC) Class Order 98/0100 and, in accordance with that order, amounts in this Directors' Report and the accompanying Financial Report have been rounded to the nearest million Australian dollars, unless stated to be otherwise.

Auditor's independence

We have obtained an independence declaration from our auditor, Ernst & Young, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2010.

Signed in accordance with a resolution of the directors.

Director

Director

Sydney, 28 March 2011

Ernst & Young

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

In relation to our audit of the financial report of AMP Bank Limited for the financial year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
28 March 2011

Liability limited by a scheme approved
under Professional Standards Legislation

AMP BANK LIMITED

Income Statement

For the year ended 31 December 2010

	Note	Consolidated 2010 $m	2009 $m	Parent 2010 $m	2009 $m
Interest income	3	735	641	699	593
Interest expense	3	(633)	(543)	(607)	(502)
Net interest income		**102**	**98**	**92**	**91**
Fee and commission income		13	17	17	20
Other income	4	3	(13)	26	77
Impairment expenses		(2)	(2)	(1)	-
Operating expenses	4	(53)	(63)	(47)	(60)
Income tax expense	5	(19)	(11)	(26)	(39)
Profit		**44**	**26**	**61**	**89**

AMP BANK LIMITED

Statement of Comprehensive Income

For the year ended 31 December 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Profit	44	26	61	89
Other comprehensive income/(expense) recognised in reserves				
Cash flow hedges [1]				
- gains and (losses) in fair value of cash flow hedges	(8)	36	-	-
- income tax (expense) credit	2	(11)	-	-
- transferred from (to) profit for the period - gross	32	55	-	-
- transferred from (to) profit for the period - income tax (expense) credit	(9)	(17)	-	-
Total comprehensive income	**61**	**89**	**61**	**89**

Footnote:

(1) Cash flow hedge movements are in respect of interest rate swaps used to manage the Bank's interest rate risk on its fixed rate mortgages and deposits portfolio.

AMP BANK LIMITED

Statement of Financial Position

As at 31 December 2010

	Note	Consolidated 2010 $m	Consolidated 2009 $m	Parent 2010 $m	Parent 2009 $m
Assets					
Cash at bank		21	33	21	33
Due from other banks		401	360	320	212
Debt securities	6	732	838	732	841
Derivative financial assets		3	4	3	4
Loans and advances	7	10,183	9,848	10,183	9,848
Deferred tax assets	5	40	43	22	32
Other assets	9	6	13	7	14
Total assets		**11,386**	**11,139**	**11,288**	**10,984**
Liabilities					
Due to other banks		599	950	599	950
Derivative financial liabilities		127	133	26	55
Deposits and other borrowings	10	5,694	4,998	5,685	4,983
Intercompany tax payable to head entity		9	14	9	14
Debt securities on issue	11	4,481	4,633	1,130	1,086
Provisions	12	2	3	2	3
Due to controlled entities		-	-	3,214	3,283
Subordinated debt	13	102	102	102	102
Deferred tax liabilities	5	43	36	24	25
Other liabilities	14	11	13	179	226
Total liabilities		**11,068**	**10,882**	**10,970**	**10,727**
Net assets		**318**	**257**	**318**	**257**
Equity					
Contributed equity	15	409	409	409	409
Reserve		(8)	(25)	-	-
Accumulated losses		(83)	(127)	(91)	(152)
Total equity		**318**	**257**	**318**	**257**

AMP BANK LIMITED

Statement of Changes in Equity

For the year ended 31 December 2010

	Contributed equity	Cash flow hedge reserve (1)	Accumulated losses (2)	Total
	$m	$m	$m	$m
Consolidated				
2010				
Balance as at the beginning of the period	409	(25)	(127)	257
Profit	-	-	44	44
Other comprehensive income	-	17	-	17
Total comprehensive income	-	17	44	61
Balance as at the end of the period	**409**	**(8)**	**(83)**	**318**
Consolidated				
2009				
Balance as at the beginning of the period	409	(88)	(153)	168
Profit	-	-	26	27
Other comprehensive income	-	63	-	63
Total comprehensive income	-	63	26	89
Balance as at the end of the period	**409**	**(25)**	**(127)**	**257**

Footnotes:

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

(2) Total comprehensive income recognised in accumulated losses includes profit attributable to the shareholder of AMP Bank Limited $44m (2009: $26m).

	Contributed equity	Cash flow hedge reserve (1)	Accumulated losses (2)	Total
	$m	$m	$m	$m
Parent				
2010				
Balance as at the beginning of the period	409	-	(152)	257
Profit	-	-	61	61
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	61	61
Balance as at the end of the period	**409**	**-**	**(91)**	**318**
Parent				
2009				
Balance as at the beginning of the period	409	-	(241)	168
Profit	-	-	89	89
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	89	89
Balance as at the end of the period	**409**	**-**	**(152)**	**257**

Footnotes:

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

(2) Total comprehensive income recognised in accumulated losses includes profit attributable to the shareholder of AMP Bank Limited $61m (2009: $89m).

AMP BANK LIMITED

Statement of Cash Flows

For the year ended 31 December 2010

	Note	Consolidated 2010 $m	Consolidated 2009 $m	Parent 2010 $m	Parent 2009 $m
Cash flows from (used in) operating activities					
Interest received		711	593	721	721
Interest paid		(637)	(571)	(609)	(559)
Fees and commissions received		13	17	17	19
Cash payments in the course of operations		(50)	(58)	(45)	(55)
Other operating income received (paid)		-	-	-	(1)
Income tax paid		(22)	(10)	(22)	(9)
Cash flows from (used in) operating profit before changes in operating assets and liabilities		**15**	**(29)**	**62**	**116**
Changes in operating assets and liabilities:					
Net funds advanced to and receipts from customers for loans and advances		(331)	(224)	(331)	(222)
Net funds advanced to and receipts from other banks		(350)	26	(350)	26
Net acceptance from and repayment of deposits and other borrowings		672	584	678	583
Net change in fair value of derivative financial instruments		46	91	-	-
Net increase (decrease) in loans due to controlled entities		-	-	(64)	(1,044)
Net decrease (increase) in other assets		-	-	1	(3)
Net increase (decrease) in other liabilities		-	(1)	(47)	(100)
Net cash flows from (used in) operating activities	19(b)	**52**	**447**	**(51)**	**(644)**
Cash flows from (used in) investing activities					
Proceeds from issue (payments for maturities) of debt securities		107	(8)	109	(258)
Net cash flows from (used in) investing activities		**107**	**(8)**	**109**	**(258)**
Cash flows from (used in) financing activities					
Proceeds from issue (payments for maturities) of debt securities on issue		(130)	(259)	38	1,046
Net cash flows from (used in) financing activities		**(130)**	**(259)**	**38**	**1,046**
Net increase in cash and cash equivalents		29	180	96	144
Cash and cash equivalents at the beginning of the period		393	213	245	101
Cash and cash equivalents at the end of the period	19(a)	**422**	**393**	**341**	**245**

AMP BANK LIMITED
Notes to the financial statements
For the year ended 31 December 2010

1. Corporate information

The financial report of the consolidated entity (the Bank) for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 28 March 2011.

AMP Bank Limited (the Company) is an unlisted public company limited by shares, incorporated and domiciled in Australia. The Bank conducts business in Australia in the retail banking industry and the Company holds an Australian Financial Services licence.

The parent entity of AMP Bank Limited is AMP Financial Investment Group Holdings Limited. The ultimate parent entity is AMP Limited.

The principal activities of the Bank are described in the Directors' Report.

2. Summary of significant accounting policies

The consolidated economic entity (the Bank) comprises AMP Bank Limited (the Company) and all entities that it controlled during the period and at the reporting date.

a) Basis of preparation

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

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

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

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

The financial report has been prepared on a historical cost basis except for those items which have been stated 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.

Significant accounting judgements, estimates and assumptions
The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Assumptions made at each reporting date, (for example, fair value measurements and provisions), are based on best estimates at that date. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Changes in accounting policy

Since 1 January 2010, the Bank has adopted a number of Australian Accounting Standards and Interpretations which are mandatory for annual periods beginning on or after 1 January 2010. Adoption of these standards and interpretations has not had any material effect on the financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Australian Accounting Standards issued but not yet effective/Early adoption of Australian Accounting Standards

A number of new accounting standards have been issued but not yet effective during 2010. The Bank has not elected to early adopt any of those new standards or amendments in this financial report. These new standards, when applied in future periods, are not expected to have a material impact on the financial position or performance of the Bank other than the following:

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

b) Principles of consolidation

The financial statements consolidate the financial information of controlled entities. Control is determined as the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.

The financial information for controlled entities is prepared for the same reporting date as the Company, using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to bring these into line.

Controlled entities that are acquired are accounted for using the purchase method of accounting. Information from the financial reports 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 report includes the results for the part of the reporting date 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 mortgage loans to securitisation vehicles (also referred to as special purpose entities) through its loan securitisation program. These securitisation vehicles are deemed by Australian Accounting Standards to be controlled by the Company and are therefore consolidated.

c) 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.

d) Due from other banks

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

2. Summary of significant accounting policies (continued)

e) Financial assets

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

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

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

f) Recognition and derecognition of financial assets and financial liabilities

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

The Company transfers assets to securitisation vehicles 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) Impairment of assets

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

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

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

Loans and advances are presented net of provisions for loan impairment. The Bank has specific and collective impairment provisions. Specific provisions are made when there is clear evidence that the Bank will suffer a loss with little chance of recovery and the amount of the loss is measurable. This provision is also reviewed quarterly and recommendations made to the Bank's Audit Committee.

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

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

2. Summary of significant accounting policies (continued)

g) Impairment of assets (continued)

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

The model is reviewed quarterly and specific factors are formally validated every 6 months and reported back to the Bank Audit Committee.

The Bank Credit Committee reviews the portfolio for provisioning at least monthly. The review considers:

- Current provisioning amount
- Portfolio growth and performance – for both on and off Statement of Financial Position exposures
- Current arrears position and specific loan provisions
- Current and forecast state of economy, interest rate movements etc.

It also makes recommendations to the Bank Board and Audit Committee.

The expected future cash flows for portfolios of similar assets are estimated on the basis of historical loss experience, for assets with similar credit risk characteristics. Loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the loss experience is based and to remove the effects of conditions in the period that do not currently exist. Increases or decreases in the provision amount are recognised in the Income Statement.

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.

The recoverable amount of an asset can be the greater of its fair value less cost to sell or value in use. The Bank's policy is to use the fair value less costs to sell in assessing recoverable amount. An impairment expense is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

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

h) Financial liabilities

Financial liabilities are initially recognised at fair value net of 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 other banks
Due to other banks includes money market deposits, certificate of deposits and settlement accounts due to other banks.

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

Deposits and other borrowings
Deposits and other borrowings comprise deposits from related parties, certificates of deposit, term deposits and savings deposits from retail clients, wholesale money market counterparties and securities sold under agreements to repurchase from Reserve Bank of Australia.

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.

2. Summary of significant accounting policies (continued)

h) Financial liabilities (continued)

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 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 include mainly 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.

i) Derivative financial assets, derivative financial liabilities and hedging

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

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at their fair value. All derivatives are recognised as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the movement in fair value depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The 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, or will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. This assessment is carried out at both hedge inception and on an ongoing basis.

Accounting for hedges

Fair value hedges
- Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded 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.
- 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 to maturity.

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

Derivatives that do not 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.

2. Summary of significant accounting policies (continued)

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

Fair value estimation
The fair value of financial instruments are 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.

j) Offsetting financial instruments

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

k) Cash and liquid assets

Cash and liquid assets consist of cash and balances with central banks and due from other banks such as money market deposits, with less than three months maturity from the date of acquisition. These amounts are recognised at the face value or gross value of the outstanding balance. Interest is taken to the Income Statement using the effective interest method when earned.

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

l) Other assets

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

m) Provisions

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

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

If the effect of the time-value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate. This rate reflects the current market assessments of the time-value of money and, where appropriate, the risks specific to the liability.

Employee entitlements
Liabilities arising in respect of salaries and wages, annual leave and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities, which have terms to maturity approximating the terms of the related liability.

n) Issued capital

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

2. Summary of significant accounting policies (continued)

o) Interest income and expense

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

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

p) Fees and commission income

Fees and commissions income includes servicing fees from mortgage and deposits accounts and are generally recognised as incurred.

q) Operating expenses

Operating expenses are expensed as incurred.

r) Other income

Other income includes gains/(losses) from changes in the fair value of derivatives.

s) 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. Controlled entities in the tax-consolidated group will continue to be responsible, by the operation of the tax funding agreement, for funding tax payments required to be made by the head entity arising from underlying transactions of the controlled entities. Controlled entities make (receive) contributions to (from) the head entity for the balances assured by the head entity 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 relevant tax authorities

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

Income tax
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 balance sheet carrying amounts, and
- unused tax losses
- 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.

2. Summary of significant accounting policies (continued)

s) Taxes (continued)

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

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

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as a receivable or payable in the Statement of Financial Position.

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

t) 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.

u) Investments in controlled entities

Investments in controlled entities are recorded at cost less any accumulated impairment loss. The aggregated amount is less than $0.5m.

3. Net interest income

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Interest income				
Cash at bank	1	1	1	1
Due from other banks	14	11	8	6
Debt securities	44	31	44	31
Derivatives [1]	33	47	3	8
Loans and advances	643	551	643	547
Total interest income	**735**	**641**	**699**	**593**
Interest expense				
Due to other banks	78	45	78	45
Derivatives [1]	66	112	38	72
Deposits and other borrowings	266	204	266	204
Debt securities on issue	213	174	12	7
Due to controlled entities	-	-	203	166
Subordinated debt	10	8	10	8
Total interest expense	**633**	**543**	**607**	**502**
Net interest income	**102**	**98**	**92**	**91**

Footnote

(1) From 2010, the interest income and expense on derivatives are separately disclosed. 2009 numbers have been restated to be consistent with the current period. In 2009 financial report, income and expenses on derivatives were both included within the total interest expense on debt securities on issue.

4. Other income and operating expenses

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Other income				
Gains (losses) on fair value of derivatives	(17)	(24)	29	69
Gains (losses) on fair value of hedged debt	20	15	(3)	12
Losses on other derivatives	-	(4)	-	(4)
Total other income	3	(13)	26	77

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Operating expenses				
Staff and related expenses				
Wages and salaries	9	9	9	9
Contributions to defined contribution funds	1	1	1	1
Other operating expenses				
Information technology and communication	8	12	8	11
Advertising and marketing expenses	2	3	2	3
Legal and regulatory charges	1	2	1	2
Securitisation related expenses	6	11	3	10
Service charges - related party	21	20	21	23
Other expenses	5	5	2	1
Total operating expenses	53	63	47	60

5. Income tax

	Consolidated 2010 $m	2009 $m	Parent 2010 $m	2009 $m
Analysis of income tax (expense) credit				
Current tax	(16)	(17)	(17)	(17)
Deferred tax	(3)	6	(9)	(22)
Income tax (expense) credit	(19)	(11)	(26)	(39)
Deferred income tax (expense) credit included in income tax expense comprises:				
(Decrease) increase in deferred tax assets	(3)	(61)	(10)	(37)
Decrease (increase) in deferred tax liabilities	(7)	39	1	15
Amount directly recognised in equity	7	28	-	-
Total deferred tax (expense) credit included in income tax	(3)	6	(9)	(22)
Relationship between income tax expense and accounting profit				
Profit before income tax per income statement	63	37	87	128
Prima facie income tax calculated at 30% (2009: 30%)	(19)	(11)	(26)	(39)
Income tax (expense) per income statement	(19)	(11)	(26)	(39)
Amounts recognised directly in equity				
Aggregate current and deferred tax not recognised in profit or loss but recognised directly in equity:				
Gains on revaluation of cash flow hedges reserve	7	28	-	-
Total income tax expenses recognised directly in equity	7	28	-	-
Analysis of deferred tax assets				
Fair value of derivatives	38	40	8	16
Trust distribution relating to fair value movements	-	-	12	13
Provisions	1	2	1	2
Other	1	1	1	1
Total deferred tax assets	40	43	22	32
Analysis of deferred tax liabilities				
Fair value of derivatives	1	1	12	13
Fair value of debt securities on issue	35	27	5	4
Other	7	8	7	8
Total deferred tax liabilities	43	36	24	25

6. Debt securities

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Debt securities - held to maturity	732	838	732	841
Total debt securities - held to maturity [1]	**732**	**838**	**732**	**841**

Footnote

(1) $255m (2009:$270m) is expected to be recovered more than 12 months from the reporting date.

7. Loans and advances

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Housing loans and practice finance loans	10,074	9,728	10,074	9,728
Secured personal loans	112	122	112	122
Total loans and advances [1] [2]	**10,186**	**9,850**	**10,186**	**9,850**
Less: Provisions for impairment				
Specific provision	(2)	(1)	(2)	(1)
Collective provision	(1)	(1)	(1)	(1)
	(3)	(2)	(3)	(2)
Total net loans and advances	**10,183**	**9,848**	**10,183**	**9,848**
Movement in provisions:				
Specific provision				
Balance at the beginning of the period	1	1	1	1
Increase in provision	1	1	1	1
Bad debts written off	-	(1)	-	(1)
Balance at the end of the period	2	1	2	1
Collective provision				
Balance at the beginning of the period	1	1	1	1
Increase in provision	-	-	-	-
Bad debts written off	-	-	-	-
Balance at the end of the period	1	1	1	1

Footnote

(1) During the year, mortgages totalling $980m (2009: $502m) were transferred to securitisation vehicles. At 31 December 2010, the Bank has outstanding securitised assets amounting to $4,953m (2009: $5,859m) after allowing for run off of the initial assets securitised.

(2) This includes $901m (2009: $779m) which are expected to be received no more than 12 months after the reporting date.

8. Asset quality

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Gross loans and advances:				
Neither past due nor impaired	9,780	9,510	9,780	9,510
Past-due loans but not impaired [1]	402	336	402	336
Impaired [2]	4	4	4	4
Total gross loans and advances	**10,186**	**9,850**	**10,186**	**9,850**

Footnotes

(1) For detailed ageing analysis refer to Note 21 Risk management and financial instruments information.

(2) Impaired assets are contractually at least 91 days in arrears with security insufficient to cover principal and arrears of interest revenue.

9. Other assets

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Interest receivable	4	5	4	4
Prepayments	1	1	1	1
Other	1	7	2	9
Total other assets [1]	**6**	**13**	**7**	**14**

Footnote

(1) Other assets of $6m (2009: $7m) are current assets.

10. Deposits and other borrowings

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Retail deposits	2,935	2,341	2,926	2,326
Certificates of deposit	362	387	362	387
Money market deposits from related parties	2,397	2,116	2,397	2,116
Securities sold under agreements to repurchase	-	154	-	154
Total deposits and other borrowings [1]	**5,694**	**4,998**	**5,685**	**4,983**

Footnote

(1) $142m (2009: $101m) is expected to be settled more than 12 months from the reporting date.

11. Debt securities on issue

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Term borrowings - amortised cost	2,968	2,819	-	-
Term borrowings - effective fair value hedge relationship	384	728	-	-
Medium term notes - amortised cost	961	911	962	911
Medium term notes - effective fair value hedge relationship	168	175	168	175
Total debt securities on issue [1]	**4,481**	**4,633**	**1,130**	**1,086**

Footnote

(1) $3,355m(2009: $4,116m) is expected to be settled more than 12 months from the reporting date.

12. Provisions

	Consolidated 2010 $m	Consolidated 2009 $m	Parent 2010 $m	Parent 2009 $m
Employee entitlements [1]	2	2	2	2
Other	-	1	-	1
Total provisions	**2**	**3**	**2**	**3**
Reconciliation of movements in provisions				
Employee entitlements				
Balance at the beginning of the period	2	2	2	2
Additional provision made	1	2	1	2
Provisions used during the period	(1)	(2)	(1)	(2)
Balance at the end of the period	**2**	**2**	**2**	**2**
Other				
Balance at the beginning of the period	1	1	1	1
Provisions used during the period	(1)	-	(1)	-
Balance at the end of the period	**-**	**1**	**-**	**1**
Total	**2**	**3**	**2**	**3**

Footnote

(1) Provisions for employee entitlements are in respect of amounts accumulated as a result of employees rendering services up to the reporting date. These entitlements include salaries, wages, bonuses, annual leave, long service leave, but exclude share-based payments. $0.2m (2009: $0.2m) is expected to be settled more than 12 months from the reporting date.

13. Subordinated debt

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Floating rate subordinated notes - related party	102	102	102	102
Total subordinated debt [1]	**102**	**102**	**102**	**102**

Footnote
(1) All of this balance is expected to be settled more than 12 months from the reporting date.

14. Other liabilities

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Interest payable	4	6	1	1
Payables to controlled entities and related parties	4	4	175	222
Other	3	3	3	3
Total other liabilities [1]	**11**	**13**	**179**	**226**

Footnote
(1) Other liabilities of $11m(2009: $13m) are current liabilities.

15. Contributed equity

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Issued capital				
1,031,344,138 ordinary shares, fully paid	409	409	409	409
Total contributed equity	**409**	**409**	**409**	**409**

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

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

16. Commitments

Commitments to provide credit facilities

	Consolidated		Parent	
	2010	2009	2010	2009
	$m	$m	$m	$m
Commitments to provide credit facilities [1]	1,425	1,169	1,425	1,169
Total commitments	**1,425**	**1,169**	**1,425**	**1,169**

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

17. Auditors' remuneration

	Consolidated		Parent	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Amounts received or due and receivable by Auditors of AMP Bank Limited for:				
Audit Services				
- Full year audit and half year review[1]	-	-	-	-
- Securitisation vehicles	190	255	-	-
Other audit services	184	5	168	5
Assurance related services	134	179	134	179
Total amounts received or due and receivable by Auditors of AMP Bank Limited	**508**	**439**	**302**	**184**

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.

18. 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 period:

Name	Date of Changes to the Board during the current or prior reporting periods
Neville Cox	
Paul Fegan	appointed 1 April 2010
Michael Lawrence	
Craig Meller	
David Morris	
Paul Sainsbury	resigned 25 January 2011
Nora Scheinkestel	

(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 1 Jan 2010 $	Net advances (repayments/ resigned) $	Balance at 31 Dec 2010 $	Interest charged $	Interest not charged $	Number in group
Key management Personnel Loans	5,123,000	(342,890)	4,780,110	323,980	-	2

(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.

Year	Short-term employee benefits $	Post-employment benefits $	Share based-payments $	Other long-term benefits $	Termination benefits $	Total $
2010	3,956,314	103,245	1,353,924	-	-	5,413,483
2009	4,151,461	138,497	900,695	-	-	5,190,653

18. Related party disclosures (continued)

(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 and computing facilities of $21m (2009: $20m). 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 which provides mainly, arrangements to provide certain capital and liquidity support to the Company.

The Bank has received guarantees from companies within the AMP Limited wholly owned group relating to the receipt of interest and principal on loans on life policies and other loans.

(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 guarantee resulted in an upgrade to the Company's credit ratings, which enables the Bank to obtain funding at a lower cost in the market. The Company pays a group guarantee fee of $1m each year to AMP Group Holdings Limited.

(iv) AMP Life Limited provides the Company with intercompany loans which are sourced from call deposit and term deposit facilities by superannuation customers of AMP Life Limited. As at 31 December 2010, the balance including interest is $1,915m (2009: $1,623m). This loan is provided on normal commercial terms. AMP Life also provided the Company with a short term loan with interest at the UBS Bank Bill Index plus 23 basis points. As at 31 December 2010, the balance including interest is $276m (2009: $263m).

Loans on policy are loans secured against the surrender value of AMP life insurance policies with a maximum LVR of 70%.

Practice finance loans are loans to financial planners. A put and call agreement exists between the Bank and AMP Life Limited to indemnify the Bank against any losses.

(v) In April 2009, the Company issued a 10-year $100m subordinated debt (sub debt) to AMP Group Finance Service Limited (AMPGFS). This sub debt was issued to replace the external sub debt which AMP Bank called. AMP Bank pays AMPGFS an arm's length rate of BBSW plus 500 basis points. As at 31 December 2010, the balance is $102m (2009: $102m).

(vi) In June 2009, AMPGFS provided the Company with $200m short term Negotiable Certificate of Deposits (NCDs). These were repaid by the Company during the year. In December 2010, AMPGFS provided another $200m short term NCDs. The Company pays AMPGFS at average rate of BBSW plus 5 basis points and the maturity of the NCDS is within three months. As at 31 December 2010, the balance is $200m (2009: $200m).

(vii) AMP Capital Investors has provided the Bank with $6m (2009: $30m) short term deposits at call. The Company pays the RBA cash rate plus 20 basis points.

(viii) The Company has due to controlled entities relating to securitisation vehicles of $3,254m (2009: $3,324m).

(ix) 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.

19. Notes to the statement of cash flows

a) Reconciliation of cash and cash equivalents:

	Consolidated 2010 $m	2009 $m	Parent 2010 $m	2009 $m
Assets				
Cash and balances with central banks	21	33	21	33
Due from other banks	401	360	320	212
Balance at the end of the period	**422**	**393**	**341**	**245**

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

	Consolidated 2010 $m	2009 $m	Parent 2010 $m	2009 $m
Net profit after tax	44	26	61	89
(Deduct) / add:				
Unrealised fair value movements	(28)	(36)	2	(8)
Impairment expenses	2	2	1	-
Amortisation expenses	4	4	4	4
Decrease (increase) in interest receivable	(6)	23	(6)	67
Increase (decrease) in interest payable	(5)	(75)	(5)	(64)
Decrease (increase) in deferred tax assets	3	60	10	37
Increase(decrease) in deferred tax liabilities	7	(39)	1	(15)
(Increase) decrease in intercompany tax payable to head entity	(5)	7	(5)	7
Increase (decrease) in other provisions	(1)	(1)	(1)	(1)
Changes in operating assets and liabilities arising from cash flow movements	37	476	(113)	(760)
Net cash flows from (used in) operating activities	**52**	**447**	**(51)**	**(644)**

(c) Financing arrangements

(i) Liquidity and standby credit facilities:				
- Available	200	200	200	200
- Used	-	(50)	-	(50)
- Unused	**200**	**150**	**200**	**150**
(ii) Bond and note funding programs:				
- Available	7,878	8,560	7,878	8,560
- Used	(1,130)	(1,090)	(1,130)	(1,090)
- Unused	**6,748**	**7,470**	**6,748**	**7,470**

20. Group controlled entity holdings

Details of controlled entities are as follows:

NAME OF ENTITY	COUNTRY OF INCORPORATION	SHARE TYPE	FOOTNOTE	% HOLDINGS 2010	% HOLDINGS 2009
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 No2	Australia	-	(1)	90	90
Progress 2004 E-1 Trust	Australia	-	(1)(2)	-	90
Progress 2004-2 Trust	Australia	-	(1)	90	90
Progress 2005-1 Trust	Australia	-	(1)	90	90
Progress 2005-2 Trust	Australia	-	(1)	90	90
Progress 2006-1 Trust	Australia	-	(1)	90	90
Progress 2007-1 G Trust	Australia	-	(1)	90	90
Progress 2008-1 R Trust	Australia	-	(1)	100	100
Progress 2009-1 Trust	Australia	-	(1)	90	90
Progress 2010-1 Trust	Australia	-	(1)(3)	90	-

Footnote

(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 note was called and final distribution was made in April 2010. Trust was wound up in April 2010.

(3) Trust established in January 2010.

21. Risk management and financial instruments information

Financial Risk Management

The Bank's risk management is carried out in accordance with policies set by the AMP Limited Board and the Bank Board.

The principal objective of AMP Limited Group's Financial Risk Management (FRM) is to ensure existence of a robust structure for identifying, assessing, measuring, managing and escalating risks.

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

Financial Risk Management structure

The AMP Limited Board has ultimate responsibility for risk management and governance at the AMP Limited consolidated group level, including ensuring that an appropriate risk framework and appetite is in place and that it is operating effectively. This includes approval of the FRM policy, shareholder capital investment strategy, capital and financing plans, approval of transactions outside the FRM policy and setting the financial risk appetite. The AMP Limited Audit Committee (AMP AC) also ensures the existence of effective FRM policies and procedures, and oversight of the execution of the FRM Policy . The various audit committees within the AMP Limited Group are delegated this responsibility for the elements specific to their respective businesses.

Executive committees oversee the management and monitoring of financial risks and capital management. These committees include Group Asset and Liability Committee (Group ALCO) for AMP Limited Group and other committees within the AMP Limited Group. The Debt Committee, a sub committee of Group ALCO, also reviews and monitors debt financing risk across the AMP Limited Group. These executive committees report to the respective audit committees and Boards within the AMP Limited Group.

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

The Bank

The Risk Management System Description (RMSD) for the Bank is based on AMP Limited Group's FRM Policy. The Bank's risk management is carried out in accordance with policies set by the AMP Limited Board. The Bank operates within the AMP Limited Group's FRM and the Bank has further committees which are described below.

The Bank Board has ultimate responsibility for risk management and governance in respect of the Bank, including ensuring an appropriate risk framework is in place and is operating effectively. Management and monitoring activities of other bodies and individuals within the Bank include:

AMP Bank Audit Committee (BAC)
The primary function of BAC is to assist the Bank Board in fulfilling its responsibilities by reviewing:

a) the Bank's financial statements;
b) the performance and independence of external audit; and
c) the effectiveness of the business risk management framework including compliance, internal controls and the assurance provided by internal audit.

AMP Bank Managing Director (Managing Director)
The Bank Board delegates appropriate authority to the Managing Director to enable the relevant functions to be performed by management committees. Pursuant to the powers delegated from the Board, the Managing Director of the Bank has established the following Management Committees:

AMP Bank Leadership Team (Leadership Team)
The Leadership Team is responsible for recommending and developing operational plans and strategies, reviewing business and financial performance, providing guidance and direction in relation to business development project priorities, key business initiatives and resource allocation in accordance with operational and strategic plans.

21. Risk Management and Financial Instruments Information (continued)

Financial Risk Management structure (continued)

AMP Bank Credit Committee (Credit Committee)
The Credit Committee's primary objective is to provide effective management and participate in the governance of credit risk for the Bank. The areas of responsibility include:

- ensuring mortgage originations are aligned with Bank strategy;
- ensuring arrears management are aligned with Bank strategy;
- ensuring Bank's compliance of specific and collective impairment methodologies;
- approving credit policies and credit limits relating to the placement of Bank liquid investments within the overall capital base.

AMP Bank Asset and Liability Committee (Bank ALCO)
Bank ALCO provides recommendations in respect of financial risk to the Bank Board, manages financial risk per Bank Board conferred discretions and assist with the implementation of the Bank RMSD in respect of financial risk.

AMP Bank Operational Risk Committee (Operational Risk Committee)
The Operational Risk Committee's primary objective is to monitor, review and act as a decision-making committee for the implementation of effective operational risk management and compliance practices, processes and systems within the Bank, taking into account business goals and strategic objectives.

AMP Bank Product and Pricing Committee (Product and Pricing Committee)
The Product and Pricing Committee's objectives are to:

- ensure effective management and participate in the governance of product and pricing activities;
- oversee the effectiveness of marketing campaigns;
- oversee pricing impacts on Bank profitability; and
- ensure appropriate transfer pricing drivers are reviewed and used as appropriate.

AMP Bank Project Review Committee (PRC)
The PRC facilitates project decision-making and supports delivery of projects, both IT and non-IT, within the Bank.

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

Information about the Bank's capital management activities including the relationship with regulatory requirements are provided in Note 22.

a) Risks and mitigation

For the purpose of AMP Limited Group's FRM Policy, risk management involves decisions made about the allocation of investment assets across asset classes and/or market and includes the management of risks within these assets classes.

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

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to movements in the financial markets. These movements include foreign exchange rates, interest rates and credit spreads. Market risk in the Bank arises from interest bearing investments and debt.

b) Market risk sensitivity analysis

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

The sensitivity is required to show the impact of a reasonably possible change in market rate (it is not intended to illustrate a remote, worst case or stress test scenario) over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

21. Risk management and financial instruments information (continued)

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

Interest rate risk arises from interest bearing financial assets and financial liabilities in the Bank.

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

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

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

		2010		2009	
	Change in variables	Impact on profit after tax Increase (decrease) $m	Impact on equity Increase (decrease) $m	Impact on profit after tax Increase (decrease) $m	Impact on equity Increase (decrease) $m
Consolidated	+100 basis points	1	11	(1)	13
	-100 basis points	(1)	(11)	1	(13)
Parent	+100 basis points	7	11	14	13
	-100 basis points	(7)	(11)	(14)	(13)

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

21. Risk management and financial instruments information (continued)

c) Liquidity and re-financing risk

Liquidity risk is the risk that the Bank is not able to meet its debt obligations or other cash outflows as they fall due because of inability to liquidate assets or obtain adequate funding when required. Refinancing risk, a sub-set of liquidity risk, is the risk that the maturity profile of existing debt is such that it would be difficult to refinance (or rollover) maturing debt, or there is excessive exposure to potentially unfavourable market conditions at any given time.

The Bank's RMSD includes a Liquidity Management Statement, which is based on the Australian Prudential Regulatory Authority (APRA) Prudential Standard APS 210: Liquidity. There are four stages of liquidity management which require different approaches:

Going Concern: covers normal day-to-day requirements and protects against all but extreme unexpected and unjustified outflows of funds. Liquidity deterioration may be caused by a loss of market confidence, which is expected to correct itself.

To ensure that the Bank has sufficient funds available on a timely basis, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities to meet its liquidity requirements, AMP Group Treasury maintains a defined surplus of cash plus projected cash inflows over projected outflows in a going-concern scenario, while meeting regulatory requirements and internal management guidelines.

Name Crisis: covers a justified event, where there is a possible future occurrence which may result in a deterioration in the Bank's standing or reputation, which needs to be prepared for in advance. An outflow of funds could be caused, for example, by a ratings downgrade or the publication of a poor profit result.

Unjustified Crisis: covers a severe unjustified and unexpected crisis, by testing the day to day Liquidity Policy and setting early warning obligations for AMP Treasury staff.

Systemic Crisis: where a systemic crisis has developed, which paralyses the Australian banking system, and the Bank cannot unilaterally rectify the problem. It is the responsibility of APRA and the Reserve Bank of Australia to address such severe disruptions.

The Bank maintains limits on the ratio of net liquid assets to customer liabilities in excess of APRA prudential minimum requirements. To limit the liquidity risk, the Bank has arranged diversified funding sources and monitors future cash flow and liquidity on a daily basis. Where possible and within certain targets, Bank raises long-term liabilities to minimise its exposure.

Liquidity and funding strategy
In response to global financial disruptions which stressed the banking system liquidity and funding, the Bank modified its funding, liquidity and asset growth strategies. In 2009 the Bank ensured that asset growth was funded by retail and super deposit growth; and in 2010 as securitisation markets and funding availability improved, the Bank adopted several initiatives to increase mortgage lending volume.

The Bank has maintained a relatively rich liquidity surplus and has a bank line of $200m in place. In early 2010 the Bank undertook a $1bn RMBS (Residential Mortgage-backed Securities) transaction (Progress 2010-1 Trust) and has made preparations for a $1bn RMBS transaction in early 2011 (Progress 2011-1 Trust).

In 2011, the Bank will continue to manage its liquidity and funding in a conservative manner. At the date of this report, a $500m warehouse is being negotiated, and more such facilities may be arranged; additional term senior debt and term securitisation will be considered opportunistically, and the Bank continues to maintain and grow a diversified retail funding base.

21. Risk management and financial instruments information (continued)

The following table summarises the maturity profile of the Bank's undiscounted financial liabilities and off balance sheet items at the reporting date. The maturity profiles are based on contractual undiscounted repayment obligations (except for debt securities on issue which are based on expected repayment). Repayments that are subject to notice are treated as if notice were to be given immediately.

Maturity profile of undiscounted financial liabilities and off balance sheet items Consolidated 2010	Up to 1 Year $m	1 to 5 Years $m	Over 5 Years $m	Total $m
Non-derivative financial liabilities				
Due to other banks	(603)	-	-	(603)
Deposits and other borrowings	(5,552)	(158)	-	(5,710)
Debt securities on issue	(1,410)	(3,569)	-	(4,979)
Subordinated debt	(110)	(22)	-	(132)
Derivative financial liabilities				
Cross currency swaps				
- Outflows	(25)	(527)	-	(552)
- Inflows	2	392	-	394
Interest rate swaps	(17)	(12)	-	(29)
Off balance sheet items				
Loan commitments	(1,425)	-	-	(1,425)
Total undiscounted financial liabilities and off balance sheet items	**(9,140)**	**(3,896)**	**-**	**(13,036)**
2009				
Non-derivative financial liabilities				
Due to other banks	(967)	-	-	(967)
Deposits and other borrowings	(4,899)	(108)	-	(5,007)
Debt securities on issue	(747)	(3,315)	(1,314)	(5,376)
Subordinated debt	(8)	(126)	-	(134)
Derivative financial liabilities				
Cross currency swaps				
- Outflows	(33)	(869)	-	(902)
- Inflows	3	732	-	735
Interest rate swaps	(34)	(28)	-	(62)
Off balance sheet items				
Loan commitments	(1,169)	-	-	(1,169)
Total undiscounted financial liabilities and off balance sheet items	**(7,854)**	**(3,714)**	**(1,314)**	**(12,882)**

21. Risk management and financial instruments information (continued)

Maturity profile of undiscounted financial liabilities and off balance sheet items Parent 2010	Up to 1 Year $m	1 to 5 Years $m	Over 5 Years $m	Total $m
Non-derivative financial liabilities				
Due to other banks	(603)	-	-	(603)
Deposits and other borrowings	(5,552)	(158)	-	(5,710)
Debt securities on issue	(507)	(654)	-	(1,161)
Due to controlled entities	(922)	(2,333)	-	(3,255)
Subordinated debt	(110)	(22)		(132)
Derivative financial liabilities				
Interest rate swaps	(17)	(12)	-	(29)
Off balance sheet items				
Loan commitments	(1,425)	-	-	(1,425)
Total undiscounted financial liabilities and off balance sheet items	**(9,136)**	**(3,179)**	**-**	**(12,315)**
2009				
Non-derivative financial liabilities				
Due to other banks	(967)	-	-	(967)
Deposits and other borrowings	(4,899)	(108)	-	(5,007)
Debt securities on issue	(85)	(1,042)	-	(1,127)
Due to controlled entities	(8)	(126)	(2,825)	(2,959)
Subordinated debt	(100)	(399)	-	(499)
Derivative financial liabilities				
Interest rate swaps	(34)	(28)	-	(62)
Off balance sheet items				
Loan commitments	(1,169)	-	-	(1,169)
Total undiscounted financial liabilities and off balance sheet items	**(7,262)**	**(1,703)**	**(2,825)**	**(11,790)**

21. Risk management and financial instruments information (continued)

d) Credit risk

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

The Bank is exposed to credit risk from lending activities and derivative contracts used to mitigate other financial risks. The Bank's exposure to credit risk through lending is managed through the receipt and monitoring of collateral and insurance. The Bank also manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

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

Credit risk arising in the Bank as part of lending activities is managed as prescribed by the Bank's RMSD and reported to the Credit Committee and Bank ALCO monthly.

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 2010 was $137m (2009: $113m) with a currently AA rated counterparty.

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

At reporting date, the Bank had no specific concentration of credit risk with a single counterparty arising from the use of financial instruments, other than the normal clearing-house exposures associated with dealings through recognised exchanges.

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 $11,340m (2009: $11,090m). The Bank has loan commitments at reporting date of $1,425m (2009: $1,169m).

Maximum credit exposure includes loans and advances of $10,183m (2009: $9,848m) and other items arising in the course of operations $75m (2009: $174m).

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

Credit rating	2010 $m	2009 $m
AAA	400	312
AA	378	341
A	90	166
BBB	214	249
Total financial assets with credit risk exposure managed by AMP Treasury	**1,082**	**1,068**

21. Risk management and financial instruments information (continued)

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 by a qualified independent valuer. About 49% of the Bank's residential loan portfolio is securitised and all loans in securitisation vehicles are mortgage insured thereby further mitigating the risk. The Bank's Credit Committee and Board oversee trends in lending exposures and compliance with concentration limits as a further basis of limiting lending risk. The Bank secures its loan portfolio with mortgages over relevant properties and as a result manages credit risk on its loan portfolio by loan to value ratio (LVR). The LVR is calculated by dividing the total loan amount by the lower of the Bank's approved valuation amount or the purchase price. Loans with LVR greater than 80% are fully mortgage insured. The potential credit exposure to the loan mortgage insurers has been assessed to be minimal due to stable historical relationship with the Bank and minimal level of historic claims rejections and reductions. The minimum level credit rating for the loans and lender mortgage insurers is AA- or above under Standards and Poor's rating. The average LVR of the Bank's loan portfolio for existing and new business is set out in the following table:

LVR %	Existing business 2010	New business 2010	Existing business 2009	New business 2009
0 - 50	28%	10%	28%	8%
51 - 60	13%	7%	12%	6%
61 - 70	15%	11%	15%	11%
71 - 80	33%	56%	33%	55%
81 - 90	9%	13%	8%	13%
91 - 95	2%	3%	3%	4%
> 95	-	-	1%	3%

Loans on policy
Loans on policy are loans secured against the surrender value of AMP life insurance policies with a maximum LVR of 70%.

Other loans
Practice finance loans are loans to financial planners. A put and call agreement exists between the Bank and AMP Life Limited to indemnify the Bank against any losses.

Past due but not impaired financial assets

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

Parent and Consolidated	2010 $m	2009 $m
Past Due but not impaired:		
- Less than 31 days	338	275
- 31 days to 60 days	20	32
- 61 days to 90 days	14	7
- More than 91 days	30	22
Total past due but not impaired	**402**	**336**

Impaired financial assets and Impairment assessment
The Bank maintains specific provision and collective loan impairment provision against these impaired loans.

Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Bank renegotiated the terms of $4m (2009: $2m) of loans during the year, that otherwise would be past due or impaired.

21. Risk management and financial instruments information (continued)

Collateral
The Bank uses residential property as collateral against its loans to customers. The Bank may take control of the collateral in the event the customer defaults. The Bank may decide to sell the properties in the ordinary course of business to recover any outstanding loan balances that the customer owes to the Bank. The Bank may have lenders mortgage insurance which covers for any shortfall upon sale of these properties against the carrying value of the loans.

e) Derivative financial instruments

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

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

i) Swaps – a swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified payment or settlement dates. Swap transactions undertaken by the Bank are:

- *interest rate swaps* which involve the contractual exchange of fixed and floating interest rate payments in a single currency based on a notional amount and a reference rate (For example, BBSW).
- *cross-currency swaps* which involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start and/or end of the contract.

ii) Forward contracts – these are agreements between two parties establishing a contractual interest rate on a notional principal over a specified period, commencing at a future date. Forward contracts are tailor-made agreements that are transacted between counter parties in the over-the-counter market (OTC).

f) Accounting for hedges

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

Derivative transactions may qualify either as fair value hedge or cash flow hedges. The Bank's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 2(i).

The Bank also enters into derivative transactions that provide economic hedges but which do not meet the requirements for hedge accounting treatment.

Derivative instruments accounted for as fair value hedges

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

During 2010, the Bank recognised a net loss of $19m (2009: $294m loss) on the hedging instruments. The net gain on hedged items attributable to the hedged risks amounted to $20m (2009: $296m gain).

21. Risk management and financial instruments information (continued)

Derivative instruments accounted for as cash flow hedges

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

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

2010 Consolidated	0-1 year $m	1-2 years $m	2-3 years $m	3-4 years $m	4-5 years $m
Cash inflows	95	39	20	1	-
Cash outflows	(106)	(44)	(20)	(1)	
Net cash inflows (outflows)	**(11)**	**(5)**	**-**	**-**	**-**
2009 **Consolidated**					
Cash inflows	87	46	17	2	-
Cash outflows	(117)	(55)	(21)	(3)	-
Net cash inflows (outflows)	**(30)**	**(9)**	**(4)**	**(1)**	**-**

Nil (2009: Nil) was recognised in the Statement of Comprehensive Income due to hedge ineffectiveness from cash flow hedges.

g) Fair values

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Statement of financial position at fair value. Bid prices are used to estimate the fair value of assets, whereas offer prices are applied for liabilities.

Consolidated	Carrying amount 2010 $m	Aggregated fair value 2010 $m	Carrying amount 2009 $m	Aggregated fair value 2009 $m
Financial assets				
Debt securities - held to maturity	732	734	838	843
Loans and advances	10,183	10,199	9,848	9,884
Total financial assets	**10,915**	**10,933**	**10,686**	**10,727**
Financial liabilities				
Due to other banks	599	599	950	951
Deposits and other borrowings	5,694	5,694	4,998	4,998
Debt securities on issue - amortised cost	3,929	4,064	3,730	3,832
Subordinated debt	102	102	102	102
Total financial liabilities	**10,324**	**10,459**	**9,780**	**9,883**

21. Risk management and financial instruments information (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Refer to note 2(i) for fair value estimation methods.

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

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

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

Deposit and other borrowings
The estimated fair value of deposits and other borrowings are the same as the carrying amount except for repurchased loans with RBA, where the estimated fair value is determined with reference to interest rate yield curves.

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.

g) Fair value measures

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

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

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

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

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

22. Capital adequacy

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

The Bank's capital structure comprises various forms of capital. For regulatory purposes, capital has two base elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at net Tier 1 and net Tier 2 capital. Tier 1 capital is comprised largely of shareholders equity that is presented in the financial accounts less deduction of certain intangible assets, capitalised costs and specific deductions relating to securitisation. Tier 2 capital is the next group that when combined with Tier 1 capital represents the total capital available to support the Bank from a regulatory view against unexpected losses. Tier 2 comprises mainly of long term subordinated debt and general reserve for credit losses.

APRA has set minimum ratios that compare the regulatory capital with risk-weighted assets (on and off balance sheet). The Bank is required to maintain a minimum ratio of total eligible capital base to total risk-weighted assets of 10% of which a minimum of 50% must be held in Tier 1 capital. The numerator of the ratio is the Total Capital base. The denominator of the ratio is the total risk-weighted asset exposure (ie. the sum of all credit, operational and market risk-weighted exposure).

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

The Bank's capital position is monitored on a continuous basis and reported monthly to the Bank ALCO. The Bank's capital ratios throughout the 2009 and 2010 financial years were in compliance with both APRA minimum capital adequacy requirements and the Bank Board approved minimum capital to risk-weighted assets of 10.5%. The Bank continues to operate at a comfortable buffer to the Bank Board requirement.

The Bank is required to inform APRA immediately of any breach or potential breach of its minimum capital adequacy requirements, including details of remedial action taken or planned to be taken.

Credit Ratings

The key ratings for the Bank, as published by Standard & Poor's and Moody's Investor Services, at 31 December 2010 were as follows:

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

AMP BANK LIMITED
Directors' Declaration

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

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

(b) 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).

(c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).

Director

Director

Sydney, 28 March 2011

23. Events occurring after the reporting date

Subsequent to 31 December 2010, customers of the Bank were affected by severe flooding in Queensland. Whilst this does not have an impact on the Bank's position at 31 December 2010, the Bank is continuing to assess the financial impact of the floods, including the impact on loan loss provisions following year end.

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

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

Report on the Financial Report

We have audited the accompanying financial report of AMP Bank Limited, which comprises the statements of financial position as at 31 December 2010, and the income statements, statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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Auditor's Opinion

In our opinion:

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

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 31 December 2010 and of their performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2 (a).

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
28 March 2011