FC022276

# AMP BANK LIMITED

ABN 15 081 596 009

# FINANCIAL STATEMENTS

# 31 DECEMBER 2001

# Corporate Information

**Directors**
Paul John Batchelor (Chairman)
Patricia Anne Cross
Marc Joseph de Cure
Craig William Dunn (Managing Director)
Donald Thomas Dunton
Andrew Max Mohl
John Leonard Palmer
Ian Andrew Renard
Timothy Cardwell Wade

**Company Secretary**
Phillip Mackey

**Registered Office**
Level 24, 33 Alfred Street
Sydney NSW 2000

**Principal Office**
Australian branch:
Level 11, 20 Hunter Street
Sydney NSW 2000

New Zealand branch:
Millennium Centre
602 Great South Road
Greenlane
Auckland
New Zealand

United Kingdom branch:
Park House Peterborough
Business Park Lynch Wood
Peterborough PE2 6ZA
United Kingdom

**Auditors**
Ernst & Young
321 Kent Street
Sydney NSW 2000

# Contents

## DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2001.

## DIRECTORS

The names of the Directors who held office during the financial year and at the date of this report were as follows:
Directors were in office for the entire period unless stated otherwise.

| | |
|---|---|
| Paul John Batchelor | (Chairman) |
| Stephen Wykeham Balme | (Managing Director)<br>(resigned 13/02/01) |
| Patricia Anne Cross | (appointed 19/02/02) |
| Marc Joseph de Cure | |
| Craig William Dunn | (Managing Director)<br>(appointed 13/02/01) |
| Donald Thomas Dunton | |
| Paul Donald Leaming | (resigned 2/05/01) |
| Andrew Max Mohl | |
| John Leonard Palmer | |
| Ian Andrew Renard | (appointed 1/3/02) |
| Timothy Cardwell Wade | |

## PRINCIPAL ACTIVITIES

The principal activity of AMP Bank Limited (the Bank) was the provision of retail banking services including deposit taking, mortgage finance and credit card lending.

There have been no significant changes in the principal activities.

## CORPORATE STRUCTURE

AMP Bank Limited is a company limited by shares, incorporated and domiciled in Australia. AMP Bank conducts business in Australia, New Zealand and the United Kingdom.

## REVIEW OF OPERATIONS AND RESULTS

AMP Bank Limited received authority for a banking licence on 18 March 1998. Business under the AMP Bank name commenced in Australia on 15 June 1998. In October 1998 the Bank established a branch operation in New Zealand. In June 2000 the Bank established a branch operation in the United Kingdom.

## DIRECTORS' REPORT (continued)

AMP Bank Limited's financial results for the year ended 31 December 2001 are in line with Directors' expectations. The result for the year reflects the continued investment required to establish and enhance the bank's domestic and international business. The Directors are satisfied that the business infrastructure, product range and servicing capacity will deliver long term value for shareholders, customers and staff.

| | | |
|---|---|---|
| Net loss after tax ($000) | : $46,633 | (2000 $57,388) |
| Dividends Recommended | : Nil | |
| Dividends paid this year | : Nil | |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the company's state of affairs occurred during the financial year.

## ENVIRONMENTAL REGULATION

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 BALANCE DATE

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect:

i) the Bank's operations in future financial years; or
ii) the results of those operations in future financial years; or
iii) the Bank's state of affairs in future financial years.

## LIKELY DEVELOPMENTS

The Directors do not make any reference to likely developments and expected results, other than as disclosed elsewhere in this report, as such references could be prejudicial to the Bank, except for the following:

On 20 December 1999 the AMP Group acquired the remaining shares in AG Australia Holdings Limited (formerly GIO Australia Holdings Limited), making it a wholly owned subsidiary of the Group. It is intended that the businesses of GIO Building Society Ltd will be acquired by AMP Bank in 2002. AMP Bank also intends to acquire the right to new business generated by AMP Finance Ltd (formerly GIO Finance Limited).

During the year the Reserve Bank of New Zealand changed its rules in relation to non-resident banks holding deposits from retail customers. The regulatory change will result in the Bank incorporating a New Zealand resident subsidiary that will hold all deposits from New Zealand retail customers. It is anticipated that the new structure will become effective in April 2002.

**DIRECTORS' REPORT (continued)**

**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

Under its Constitution, the Bank has agreed to indemnify all the Directors, secretaries, and executive officers of the Bank against any liability, whether civil or criminal, for which they may be held personally liable. The agreement provides for the Bank to pay an amount where:

(a) the liability does not arise out of conduct involving lack of good faith; or
(b) the liability is for costs or expenses incurred by the Director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

No indemnity is given to present or former employees of the Bank or its subsidiaries against liability incurred in their capacity as an employee unless the giving of the indemnity has been approved by the Board of AMP Limited. During or since the end of the financial year, no indemnities have been provided.

During or since the end of the financial year, the Bank has paid or agreed to pay premiums in respect of a contract insuring all the Directors, secretaries and executive officers against certain liabilities as permitted by the Corporations Act 2001. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of the liability.

**OPTIONS**

No options have been granted over unissued shares in the company.

**BOARD COMMITTEES**

The Board has established two committees, each of which has responsibility for overseeing and reviewing specific issues and providing recommendations to the Board. The committees so formed are the Audit and Compliance Committee and the Securitisation and Funding Committee.

The Board Audit and Compliance Committee is the result of merging of the Board Audit Committee and Board Compliance Committee on 4 June 2001. The Committee is chaired by a non-executive Director and the membership comprises a majority of independent non-executive Directors. The Audit and Compliance Committee operates under Terms of Reference and delegations approved by the Board and has a primary responsibility to:

- Review and monitor compliance programs to ensure full compliance with the law, regulations and statutory authorities is achieved;
- Review and monitor the integrity of internal controls and financial reporting systems to provide additional assurance to the Board regarding the integrity of financial data and reports and protection of shareholders assets.

## DIRECTORS' REPORT (continued)

The Securitisation and Funding Committee was established on 16 August 2001. The Committee operates under Terms of Reference and delegations approved by the Board. The role of the Committee is to assist the Board to discharge their corporate governance responsibilities in relation to the securitisation and funding programs of the Bank. The Committee membership comprises four Directors, one of whom must be an independent non-executive Director.

Paul Batchelor is the chairman of the Board of Directors.
D Thomas Dunton is the chairman of the Board Audit and Compliance Committee.
Tim Wade is the chairman of the Securitisation and Funding Committee.
D Thomas Dunton was the chairman of the Board Compliance Committee until its merger on 4 June 2001.
John Palmer was the chairman of the Board Audit Committee until its merger on 4 June 2001.

## MEETINGS OF DIRECTORS

| | Directors' Meetings | | Committee Meetings | | | |
|---|---|---|---|---|---|---|
| | | | Audit & Compliance Committee | | Securitisation & Funding Committee | |
| | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number Attended |
| Paul Batchelor | 6 | 5 | - | - | - | - |
| Craig Dunn | 6 | 6 | - | - | 1 | 1 |
| Marc de Cure | 6 | 6 | - | - | 1 | 1 |
| D Thomas Dunton | 6 | 6 | 2 | 2 | 1 | 1 |
| John Palmer | 6 | 6 | 2 | 2 | - | - |
| Paul Leaming | 2 | 2 | 2 | 2 | - | - |
| Andrew Mohl | 6 | 6 | - | - | - | - |
| Tim Wade | 6 | 5 | - | - | 1 | 1 |

| | Committee Meetings | | | |
|---|---|---|---|---|
| | Audit Committee | | Compliance Committee | |
| | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number attended |
| D Thomas Dunton | 1 | 1 | 2 | 2 |
| John Palmer | 1 | 1 | 2 | 2 |
| Paul Leaming | 1 | 1 | 2 | 1 |

## EMPLOYEES

AMP Bank employed 476 employees as at 31 December 2001. (2000: 661)

**DIRECTORS' REPORT (continued)**

**ROUNDING**

The Bank is an entity of the kind referred to in the 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 thousand dollars, unless stated to be otherwise.

Signed in accordance with a resolution of the Directors.

..........................................
Director

..........................................
Director

Sydney, 26 March 2002

# STATEMENT OF FINANCIAL PERFORMANCE
## FOR THE YEAR ENDED 31 DECEMBER 2001

| | Note | 2001 $'000 | 2000 $'000 |
|---|---|---|---|
| Interest income | 2 | 416,100 | 375,302 |
| Interest expense | 2 | 320,967 | 314,492 |
| **Net interest income** | | **95,133** | ***60,810*** |
| Other revenue from ordinary activities | 3 | 22,163 | 19,376 |
| **Total operating income** | | **117,296** | **80,186** |
| Bad and doubtful debts expense | 8 | 10,603 | 6,642 |
| **Total operating income after bad and doubtful debts expense** | | **106,693** | **73,544** |
| Other expenses from ordinary activities | 4 | 171,907 | 153,608 |
| **Loss from ordinary activities before income tax expense** | | **(65,214)** | **(80,064)** |
| Income tax expense/(revenue) relating to ordinary activities | 5 | (18,581) | (22,676) |
| **Net loss attributable to members of the Bank** | | **(46,633)** | **(57,388)** |

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

# STATEMENT OF FINANCIAL POSITION
## FOR THE YEAR ENDED 31 DECEMBER 2001

| | Note | 2001 $'000 | 2000 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash | 28 | 9,550 | 4,818 |
| Due from other financial institutions | 6 | 442,463 | 256,509 |
| Investment securities | 7 | 1,134,155 | 537,560 |
| Loans and advances | 8 | 4,348,048 | 4,259,692 |
| Plant and equipment | 12 | 5,233 | 2,271 |
| Future tax assets | 5 | 39,995 | 33,017 |
| Other assets | 13 | 47,750 | 62,217 |
| **Total assets** | | **6,027,194** | **5,156,084** |
| **Liabilities** | | | |
| Due to other financial institutions | 14 | 203,245 | 185,933 |
| Deposits and short term borrowings | 15 | 4,630,818 | 3,863,525 |
| Medium term debt | 16 | 599,238 | 646,505 |
| Other Provisions | 18 | 18,099 | 13,145 |
| Other liabilities | 19 | 144,368 | 123,917 |
| Loan Capital | 20 | 100,000 | 100,000 |
| **Total liabilities** | | **5,695,768** | **4,933,025** |
| **Net assets** | | **331,426** | **223,059** |
| **Equity** | | | |
| Contributed equity | 21 | 489,000 | 334,000 |
| Accumulated losses | 22 | (157,574) | (110,941) |
| **Total equity** | | **331,426** | **223,059** |

The Statement of Financial Position should be read in conjunction with the accompanying notes.

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2001

| | Note | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 416,434 | 369,812 |
| Interest paid | | (316,050) | (309,581) |
| Fees and commissions received | | 22,147 | 19,376 |
| Dividends received | | 16 | - |
| Fees and commissions paid | | (10,727) | (7,959) |
| Staff expenses paid | | (63,272) | (59,738) |
| Occupancy and equipment expenses paid | | (8,633) | (8,284) |
| Other expenses paid | | (85,557) | (72,932) |
| Consumption taxes recovered (GST/VAT) | | 2,205 | 711 |
| Receipt from sale of tax losses | | 11,603 | 12,798 |
| Net cash flows used in operating activities | 28 | **(31,834)** | **(55,797)** |
| **Cash flows from investing activities** | | | |
| Net decrease/(increase) in investment securities | | (596,595) | 227,359 |
| Net decrease/ (increase) in loans and advances | | (98,959) | (695,678) |
| Acquisitions of plant and equipment | | (4,192) | (466) |
| Proceeds on disposal of plant and equipment | | 261 | 40 |
| Net (increase)/decrease in other assets | | 14,133 | (25,509) |
| Net cash flows used in investing activities | | **(685,352)** | **(494,254)** |
| **Cash flows from financing activities** | | | |
| Net increase/(decrease) in due to other financial institutions | | 17,312 | (8,441) |
| Net increase in retail deposits | | 560,610 | 647,992 |
| Net (decrease)/increase in bond and note issues | | 159,416 | (500,173) |
| Net increase in other liabilities | | 15,534 | 62,942 |
| Capital issued | 21 | 155,000 | 59,000 |
| Net cash flows from financing activities | | **907,872** | **261,320** |
| Net (decrease)/increase in cash held | | 190,686 | (288,731) |
| Add opening cash brought forward | | 261,327 | 550,058 |
| **Closing cash carried forward** | 28 | **452,013** | **261,327** |

The Statement of Cashflows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Banking Act, Corporations Act 2001, including applicable Accounting Standards, other mandatory reporting requirements so far as the requirements are considered appropriate to a banking corporation. All amounts are expressed in Australian currency.

### b) Historic cost

The financial report has been prepared on the accruals basis of accounting using historical cost accounting except where otherwise indicated. The carrying amounts of all non-current assets are assessed as at the reporting date to ensure that they do not exceed their recoverable amounts. Recoverable amount is determined as the net amount expected to be recovered from the cash flows arising from the continued use and subsequent disposal of the asset or group of assets. In determining their recoverable amount the expected net cash flows have not been discounted to their present value unless otherwise stated.

### c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except for the accounting policies with respect to computer software development costs.

During the financial year the Bank changed its accounting policy for computer software development costs. In prior years the Bank expensed software development costs directly to the statement of financial performance. From 1 January 2001, the Bank adopted the practice of capitalising software development costs and amortising these costs over the period of expected future benefit. Where future value cannot be reliably measured, the Bank continues to write off these costs directly to the statement of financial performance. The Bank has changed its accounting policy to conform with the accounting policies of the AMP Group. Also, given the Bank's move out of its development phase it can reliably measure the value in its systems development. The Bank has not restated any costs that have been expensed in previous financial years.

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| Computer software development costs | 13,977 | 10,300 |
| Treatment in financial statements: | | |
| Costs expensed | 10,899 | 10,300 |
| Costs capitalised | 3,078 | - |
| Depreciation of software | 291 | - |

### d) Rounding

The Bank is an entity of the kind referred to in the ASIC Class Order 98/0100 and in accordance with that order, amounts in the accompanying financial report have been rounded off to the nearest thousand dollars, unless stated to be otherwise.

**e) Comparatives**
Where necessary, prior year comparatives have been restated in order to conform to the current year's presentation.

**f) Consolidation**
The Bank has one controlled entity as disclosed in Note 29. Consolidated financial statements have not been prepared, as the entity concerned is not material.

**g) Translations of financial reports of overseas operations**
The overseas branches of the Bank are deemed to be integrated foreign operations as each are financially and operationally dependent upon the Australian branch of the Bank. The foreign currency assets and liabilities of the Bank's foreign branches are converted in accordance with the temporal method. Foreign currency translation gains and losses are charged to the statement of financial performance as the branch operations are integrated with the operations of the Australian Bank. The Bank maintains a substantially matched level of foreign assets and liabilities so the foreign currency exposure is not significant for the Bank.

**h) Foreign currency transactions**
Transactions in foreign currencies are converted to the local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable and receivable that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at balance date.

**i) Financial instruments**
The Bank is a financial institution offering various financial services and products to its customers. These services and products are undertaken and offered on a commercial basis. The accounting policies for these services and products are discussed in notes 1(j) to 1(s).

**j) Due from Other Financial Institutions**
Claims on other financial institutions include money market deposits, securities purchased under repurchase agreement and bank accounts with other financial institutions. These amounts are carried in the statement of financial position at cost and interest is taken to account in the statement of financial performance on a straight line accruals basis.

**k) Securities purchased under repurchase agreement**
Securities purchased under repurchase agreement ("repo's") are accounted for on a straight line accruals basis. Interest income is calculated on a simple interest basis on the purchase price of the repo and charged to the statement of financial performance daily. The carrying value of repo's is the purchase price plus accrued interest.

Repo's have been included in "short term deposits" within "amounts due from other financial institutions".

**l) Investment securities**

Investment securities are securities purchased with the intention to hold until maturity. They include short term public, bank and other securities including bills of exchange, commercial paper and negotiable certificates of deposit. The securities are recorded at cost or amortised cost. Premiums and discounts are amortised through the statement of financial performance each year from the date of purchase so that securities attain their redemption value by maturity date. Interest is reflected in the statement of financial performance when earned. Any gain or loss on disposal prior to maturity is capitalised and amortised over the period to its maturity date. The cost of securities sold is calculated on a specific identification basis.

Dividends on equities are brought to account in the statement of financial performance on receipt of the dividend.

**m) Loans and advances**

Loans and advances are carried at recoverable amount, represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts (provision for impairment). Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. Interest is taken to the statement of financial performance on an accruals basis.

*Provision for doubtful debts*

The Bank has a policy of writing off bad debts as they arise. The Bank also maintains general provisions for bad and doubtful debts to cover non-identified potential losses and latent risks inherent in the overall portfolio of advances. The provisions are determined having regard to the general risk profile of the credit portfolio, economic conditions and a range of other criteria.

The bank also maintains specific provisions for bad and doubtful debts to cover identified potential losses on specific loans. A specific provision is raised where the loan is in arrears for at least 90 days and the value of the security is less than the outstanding loan balance. The amount of the specific provision is equal to the deficiency in security value plus any expected recovery costs.

The amounts required to bring the provisions for impairment to their assessed levels are taken to the statement of financial performance. The balance of provisions for impairment and movements therein are set out in Note 8.

**n) Due to Other Financial Institutions**

Claims by other financial institutions include money market deposits and bank accounts in overdraft with other financial institutions. These amounts are carried in the statement of financial position at cost and interest is taken to account in the statement of financial performance on a straight line accruals basis.

**o) Deposits and short term borrowings**

The Bank as part of its banking activities, takes deposits from retail clients and wholesale money market counterparties. Customer deposits are recorded at the gross value of the outstanding balance and interest on these deposits is accrued as an expense over the term of the deposit.

*Negotiable Certificates of deposits (NCDs)*

NCDs have been issued by the Bank. These liabilities are valued in the accounts at the face value of the NCDs less any discount yet to accrue from balance date to maturity.

**p) Medium Term Debt**

The Bank as part of its banking activities, issues term debt to wholesale debt market counterparties. Debt issued includes medium term notes and floating rate notes. Notes issued are recorded at cost and interest on these notes is accrued on a straight line accruals basis.

**q) Loan Capital**

The Bank as part of its banking activities, issues subordinated term debt to wholesale debt market counterparties. Notes issued are recorded at cost and interest on these notes is accrued on a straight line accruals basis.

**r) Loan securitisation**

The Bank, through its loan securitisation program, sells mortgage loans to securitisation vehicles that in turn issue asset backed securities to investors. In such transactions the Bank receives fees for various services provided to the program on an arms-length basis, including servicing fees and management fees. These fees are recognised over the period in which the services are provided. The Bank also provides arms-length interest rate swaps and loan facilities to the program in accordance with the APRA Prudential Guidelines.

**s) Derivative Financial Instruments held for hedging purposes**

The principal objective of using derivative financial instruments for hedging purposes is to minimise financial risk from movements in interest rates and foreign exchange rates. To achieve this objective, a combination of derivatives including swaps, futures, forwards and options in the interest rate and foreign exchange markets may be used.

All financial instruments are held for risk management purposes. The Bank does not have a trading portfolio. Interest rate derivatives are used to minimise interest rate risk from the Bank's interest bearing assets and liabilities. Foreign exchange derivatives are used to minimise foreign exchange risk from foreign currency borrowings.

Hedging derivatives must be efficient at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in fair value of the hedging contract must be closely correlated with the changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. Hedged interest rate derivatives are accounted for on an accruals basis, as this is consistent with the treatment of the hedged items. Hedged foreign exchange derivatives are accounted for on a mark to market basis, as required by AASB 1012.

The net income or expense on derivatives used to manage interest rate exposures is recorded in Net Interest Income on an accruals basis. The net income or expense on derivatives used to manage foreign exchange exposures is recorded in Net Interest Income on a mark to market basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within Other Assets or Other Liabilities and amortised to Net Interest Income over the remaining period originally covered by the terminated contract.

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as Other Assets or Other Liabilities where a legal set off exists.

**t) Cash and cash equivalents**

Cash on hand and cash on deposit with central banks are stated at the lower of cost and net realisable value.

For the purposes of the Statement of Cash Flows, cash includes cash at banks, settlement account balances with banks and deposits at call with other financial institutions:

**u) Plant and equipment**

Plant and equipment are shown at cost less accumulated depreciation.
Depreciation is provided on a straight line basis on all plant and equipment.
Major depreciation periods are:

| | 2001 | 2000 |
|---|---|---|
| • Leasehold improvements: | 7 years | 7 years |
| • Plant and equipment: | 6 years | 6 years |

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

Leasehold rentals are charged to the statement of financial performance, whilst improvements to leasehold properties are amortised on a straight line basis over the lower of remaining useful life or the unexpired term of the lease.

**v) Computer Software Development**

The Bank capitalises software development costs and amortises these costs over the period of expected future benefit. Where future value cannot be reliably measured, the Bank continues to write off these costs directly to the statement of financial performance. The carrying value of computer software does not exceed recoverable amount. The amortisation period is as follows:

- Computer software: 3 years

This accounting policy has been changed in the current financial year and is discussed further in Note 1(c).

**w) Other receivables**

Other receivables are recognised and carried at cost less any provision for uncollectable amounts.

Accrued interest is recognised on an accruals basis.

**x) Provisions**

Provision is made for frauds and operating losses on customer accounts. Fraud & operating loss provisions are measured at the estimated future cash outflows to be made in respect of compensating existing customers as at the reporting date.

Provision is made for unused credit card reward points. Reward point provisions are measured at the estimated future cash outflows to be made in respect of customers redeeming their reward points earned and unused as at the reporting date. The probability of reward redemption is taken into consideration in determining the value of future cash outflows.

**y) Employee entitlements**

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include salaries and wages, annual leave and long service leave.

Liabilities arising in respect of salaries and wages, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their (non-discounted) nominal amounts. All other employee entitlement liabilities 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, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlement expenses arising in respect of the following categories:

- salaries and wages, non-monetary benefits, annual leave, long service leave and other leave entitlements; and,
- other types of employee entitlements
- defined contribution superannuation scheme
- defined benefits superannuation scheme

are charged against profits on a net basis in their respective categories.

**z) Other liabilities**

Other payables are carried at cost which is the fair value of the consideration to be paid in the future.

Accrued interest is recognised on an accruals basis.

**aa) Contributed Equity**

Ordinary share capital is recognised at the fair value of the consideration received by the company.

**ab) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Fees received represent cost recovery or charges for services and are taken to income as earned.

Interest income is recognised on a daily accruals basis.

Dividend income is recognised when receivable.

**ac) Operating Leases**

The minimum lease payments on operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

The lease incentive liability in relation to non-cancellable operating leases is being reduced on a straight line accruals basis over the lease term.

Contingent rentals are recognised as an expense when they are incurred.

**ad) Income tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

**ae) Consumption tax**

Consumption tax is known as the goods and services tax (GST) in Australia and New Zealand. It is known as valued added tax (VAT) in the United Kingdom.

Revenues, expenses and assets are recognised net of the amount of consumption tax, except where the amount is not recoverable from the relevant government tax authority. In these circumstances the consumption tax is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of consumption tax included.

The net amount of consumption tax recoverable from or payable to the government tax authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The consumption tax components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the government tax authority are classified as operating cash flows.

## 2. AVERAGE BALANCE SHEET AND RELATED INTEREST

The following table shows the average balances for each of the major categories of interest bearing assets and liabilities, the related amount of interest revenue and expense and the average interest rate.

| | Year Ending 31 December 2001 | | |
|---|---|---|---|
| | Average Balance $'000 | Interest $'000 | Average Interest Rate |
| **Average Asset Balances, Interest Revenues and Rates** | | | |
| Interest earning assets | | | |
| Cash | 13,833 | 796 | 5.75% |
| Due from other financial Institutions | 321,807 | 17,350 | 5.39% |
| Investments | 739,807 | 38,600 | 5.22% |
| Loans and advances | 4,777,905 | 359,354 | 7.52% |
| Total Interest earning assets | 5,853,352 | 416,100 | 7.11% |
| Non-interest earning assets | 62,292 | - | - |
| Total assets | **5,915,644** | **416,100** | **7.03%** |
| **Average Liability Balances, Interest Expenses and Rates** | | | |
| Interest bearing liabilities | | | |
| Due to other financial institutions | 265,585 | 11,896 | 4.48% |
| Retail deposits | 1,299,619 | 69,752 | 5.37% |
| Short term borrowings | 3,229,549 | 177,966 | 5.51% |
| Medium term & subordinated borrowings | 740,425 | 42,821 | 5.78% |
| Hedge Costs | - | 18,532 | - |
| Total interest bearing liabilities | 5,535,179 | 320,967 | 5.80% |
| Non-interest bearing liabilities | 81,775 | - | - |
| Total liabilities | 5,616,954 | 320,967 | 5.71% |
| Shareholders' equity | 298,690 | - | - |
| Total liabilities and shareholders' equity | **5,915,644** | **320,967** | **5.43%** |

| | Year Ending 31 December 2000 | | |
|---|---|---|---|
| | **Average Balance $'000** | **Interest $'000** | **Average Interest Rate** |
| **Average Asset Balances, Interest Revenues and Rates** | | | |
| Interest earning assets | | | |
| Cash | 25,300 | 1,269 | 5.02% |
| Due from other financial institutions | 540,915 | 32,310 | 5.97% |
| Investments | 713,992 | 42,709 | 5.98% |
| Loans and advances | 3,845,560 | 299,014 | 7.78% |
| Total interest earning assets | 5,125,767 | 375,302 | 7.32% |
| Non-interest earning assets | 91,294 | - | - |
| Total assets | **5,217,061** | **375,302** | **7.19%** |
| **Average Liability Balances, Interest Expenses and Rates** | | | |
| Interest bearing liabilities | | | |
| Due to other financial institutions | 240,825 | 15,554 | 6.46% |
| Retail deposits | 633,555 | 38,276 | 6.04% |
| Short term borrowings | 3,226,583 | 198,920 | 6.17% |
| Medium term & subordinated borrowings | 854,431 | 51,199 | 5.99% |
| Hedge Costs | - | 10,543 | - |
| Total interest bearing liabilities | 4,955,394 | 314,492 | 6.35% |
| Non-interest bearing liabilities | 38,203 | - | - |
| Total liabilities | 4,993,597 | 314,492 | 6.30% |
| Shareholders' equity | 223,464 | - | - |
| Total liabilities and shareholders' equity | **5,217,061** | **314,492** | **6.03%** |

## 3. OTHER INCOME

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Fees and commissions revenues | 18,532 | 13,495 |
| Securitisation income | 3,615 | 5,881 |
| Dividend income | 16 | - |
| | **22,163** | **19,376** |

## 4. NON-INTEREST EXPENSES

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Fees and commissions expenses | 10,727 | 7,959 |
| Staff expenses: | | |
| Salaries, wages & contractors | 53,897 | 48,971 |
| Superannuation contributions | 2,218 | 1,551 |
| Employee entitlements | 384 | 721 |
| Other staff costs | 9,002 | 7,327 |
| Equipment and occupancy expenses: | | |
| Depreciation of plant and equipment | | |
| Leasehold improvements | 462 | 462 |
| Office equipment | 225 | 414 |
| Computer Software | 291 | - |
| Proceeds from sale of plant and equipment | (264) | - |
| Cost of sale of plant and equipment sold | 255 | 40 |
| Rental on operating leases | 8,633 | 8,284 |
| Other expenses: | | |
| Systems development | 10,899 | 10,300 |
| Systems support | 9,887 | 16,272 |
| Communications | 4,075 | 4,759 |
| Data processing | 9,103 | 2,206 |
| Other administration expenses | 52,320 | 43,866 |
| Foreign exchange loss/ (gain) | (207) | 476 |
| | **171,907** | **153,608** |

## 5. INCOME TAX

The prima facie tax credit, using tax rates applicable in the country of operation, on losses from ordinary activities differs from the income tax credit disclosed in the accounts as follows:

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| Loss from ordinary activities before income tax | (65,214) | (80,064) |
| Prima facie tax credit on loss from ordinary activities @30% (2000: 34%) | (19,564) | (27,222) |
| Add back: | | |
| Tax effect of different foreign tax rates | (795) | 594 |
| | (20,359) | (26,628) |
| Tax effect of permanent differences: | | |
| General provision for doubtful debts | 220 | 1,034 |
| Fraud & operating loss provisions | 75 | 754 |
| Expenses of a capital nature | 323 | 1,787 |
| Other permanent differences | 628 | 107 |
| Under / (Over) provision in prior years | 532 | (141) |
| Change in future tax rates | - | 411 |
| Income tax revenue relating to ordinary activities | **(18,581)** | **(22,676)** |
| Future tax assets and liabilities: | | |
| Future income tax benefit – tax losses | 29,892 | 25,657 |
| Future income tax benefit – timing differences | 10,103 | 7,360 |
| | **39,995** | **33,017** |

These future income tax benefits will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefits to be realised;
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(c) no changes in tax legislation adversely affect the Bank in realising the benefits.

## 6. DUE FROM OTHER FINANCIAL INSTITUTIONS

| | 2001 | 2000 |
|---|---|---|
| Short term money market deposits | 345,825 | 176,530 |
| Securities purchased under repurchase agreements | 96,638 | 79,979 |
| | **442,463** | **256,509** |

## 7. INVESTMENT SECURITIES

| | | 2001 $'000 | 2000 $'000 |
|---|---|---|---|
| Treasury notes | | 90,019 | 104,144 |
| Bank accepted bills of exchange | | 402,845 | 194,207 |
| Bank issued certificates of deposit | | 582,606 | 209,372 |
| Promissory Notes | | 58,682 | 29,834 |
| Shares – listed and unlisted | | 3 | 3 |
| | | **1,134,155** | **537,560** |

## 8. LOANS AND ADVANCES

| | | 2001 $'000 | 2000 $'000 |
|---|---|---|---|
| Housing loans | | 3,960,152 | 3,879,159 |
| Credit card advances | | 180,133 | 161,659 |
| Secured personal loans | | 223,946 | 231,698 |
| | | 4,364,231 | 4,272,516 |
| Less: Provision for impairment | | (16,183) | (12,824) |
| | | **4,348,048** | **4,259,692** |
| Loans sold to securitisation vehicles during the year | 9 | 1,265,300 | - |
| *General provision for impairment* | | | |
| Opening balance | | 12,607 | 9,559 |
| Adjustments for exchange rate fluctuations | | 103 | 28 |
| Doubtful debts expense | | 720 | 3,020 |
| Closing balance | | **13,430** | **12,607** |
| *Specific provision for impairment* | | | |
| Opening balance | | 217 | 243 |
| Adjustments for exchange rate fluctuations | | 3 | - |
| Doubtful debts expense | | 2,533 | (26) |
| Closing balance | | **2,753** | **217** |
| *Bad and Doubtful debts expense comprises:* | | | |
| Movement in General provision | | 720 | 3,020 |
| Movement in Specific provision | | 2,533 | (26) |
| Bad debts written off directly to statement of financial performance | | 7,350 | 3,648 |
| | | **10,603** | **6,642** |
| General Provision as a percentage of total risk weighted assets | | 0.42% | 0.45% |

Maturity details for loans and advances are included in the maturity profile at Note 31(b).

## 9. SECURITISED LOANS

At 31 December 2001 the Bank, in its capacity as service provider, had loans and advances amounting to $230 million (2000: $341 million) in the securitsation vehicle Progress 1997-1 Trust. The current balance allowed for the amortisation of the initial assets securitised.

The Bank also sold mortgages into a new securitisation vehicle, Progress Warehouse Trust No1 during the year totalling $1,265 million. At 31 December 2001 the Bank, in its capacity as service provider, had loans and advances amounting to $1,233 million in the securitsation vehicle Progress Warehouse Trust No1. The current balance allowed for the amortisation of the initial assets securitised.

The securities issued by the securitisation programs do not represent deposits or other liabilities of the Bank. The Bank does not in any way stand behind the capital value and/or performance of the securities or the assets of the program except to the limited extent provided in the transaction documents for the program through the provision of arms length services and facilities (refer Note 1r). The Bank does not guarantee the payment of interest or the repayment of principal due on the securities. The Bank is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The Bank has no right to repurchase any of the securitised loans and no obligation to do so.

## 10. ASSET QUALITY

**Impaired assets**

| | 2001<br>$'000 | 2000<br>$'000 |
|---|---|---|
| *Non-accrual loans* | 3,733 | 1,173 |
| *Restructured loans* | - | - |
| *Past-due loans* | 27,349 | 11,800 |
| | **31,082** | **12,973** |

Non-accrual loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.

Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and the revised terms are not comparable to new facilities offered to other normal customers. Loans with revised terms are included in non-accrual loans when impairment provisions are required.

Past-due loans are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If an impairment provision is required, the loan is included in non-accrual loans.

## 11. CREDIT CONCENTRATION OF ASSETS

**Risk concentration by asset class as at 31 December 2001**

| | Investment securities $'000 | Loans and advances $'000 | Contingent liabilities* $'000 | Derivatives* $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Government and public authorities | 49,580 | - | - | - | 49,580 |
| Financial, investment and insurance | 950,954 | - | 18,750 | 39,190 | 1,008,894 |
| Real estate – mortgage | - | 1,147,174 | 19,836 | - | 1,167,010 |
| Personal | - | 362,807 | - | - | 362,807 |
| Total Australia | 1,000,534 | 1,509,981 | 38,586 | 39,190 | 2,588,291 |
| **New Zealand** | | | | | |
| Government and public authorities | 40,439 | - | - | - | 40,439 |
| Financial, investment and insurance | 64,790 | - | - | 28,270 | 93,060 |
| Real estate – mortgage | - | 1,784,522 | - | - | 1,784,522 |
| Other commercial | - | 404,665 | - | - | 404,665 |
| Personal | - | 2,234 | - | - | 2,234 |
| Total New Zealand | 105,229 | 2,191,421 | - | 28,270 | 2,324,920 |
| **United Kingdom** | | | | | |
| Government and public authorities | - | - | - | - | - |
| Financial, investment and insurance | 28,392 | - | - | 5,220 | 33,612 |
| Real estate – mortgage | - | 613,914 | - | - | 613,914 |
| Personal | - | 32,732 | - | - | 32,732 |
| Total United Kingdom | 28,392 | 646,646 | - | 5,220 | 680,258 |
| Gross Balances | 1,134,155 | 4,348,048 | 38,586 | 72,680 | 5,593,469 |
| Other risk concentrations: | | | | | |
| Receivables due from other financial Institutions | | | | | 442,463 |
| Total gross credit risk | | | | | 6,035,932 |

* Risk concentration for contingent liabilities and derivatives is based on the credit equivalent balance in Note 23, Other Commitments and Note 31(a), Derivatives respectively.

**Risk concentration by asset class as at 31 December 2000**

| | Investment securities $'000 | Loans and advances $'000 | Contingent liabilities* $'000 | Derivatives* $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Government and public authorities | 64,612 | - | - | - | 64,612 |
| Financial, investment and insurance | 337,877 | - | - | 12,080 | 349,957 |
| Real estate – mortgage | - | 1,789,476 | - | - | 1,789,476 |
| Personal | - | 354,257 | - | - | 354,257 |
| Total Australia | 402,489 | 2,143,733 | - | 12,080 | 2,558,302 |
| **New Zealand** | | | | | |
| Government and public authorities | 39,532 | - | - | - | 39,532 |
| Financial, investment and insurance | 63,366 | - | - | 14,730 | 78,096 |
| Real estate – mortgage | - | 1,750,103 | - | - | 1,750,103 |
| Other commercial | - | 242,477 | - | - | 242,477 |
| Total New Zealand | 102,898 | 1,992,580 | - | 14,730 | 2,110,208 |
| **United Kingdom** | | | | | |
| Government and public authorities | - | - | - | - | - |
| Financial, investment and insurance | 32,173 | - | - | 2,300 | 34,473 |
| Real estate – mortgage | - | 89,937 | - | - | 89,937 |
| Personal | - | 33,442 | - | - | 33,442 |
| Total United Kingdom | 32,173 | 123,379 | - | 2,300 | 157,852 |
| Gross Balances | 537,560 | 4,259,692 | - | 29,110 | 4,826,362 |
| Other risk concentrations: | | | | | |
| Receivables due from other financial Institutions | | | | | 256,509 |
| Total gross credit risk | | | | | 5,082,871 |

* Risk concentration for contingent liabilities and derivatives is based on the credit equivalent balance in Note 23, Other Commitments and Note 31(a), Derivatives respectively.

## 12. PLANT AND EQUIPMENT

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Leasehold improvements | | |
| At cost | 4,300 | 2,914 |
| Deduct: accumulated depreciation | 2,209 | 1,119 |
| | 2,091 | 1,795 |
| Office equipment | | |
| At cost | 1,234 | 1,109 |
| Deduct: accumulated depreciation | 879 | 633 |
| | 355 | 476 |
| Computer Software Cost | | |
| At cost | 3,078 | - |
| Deduct: accumulated depreciation | 291 | - |
| | 2,787 | - |
| | **5,233** | **2,271** |
| Leasehold improvements | | |
| Opening balance | 1,795 | 2,081 |
| Additions | 753 | 211 |
| Disposals | - | (33) |
| Depreciation | (461) | (464) |
| FX gain on translation | 4 | - |
| | 2,091 | 1,795 |
| Office equipment | | |
| Opening balance | 476 | 640 |
| Additions | 360 | 264 |
| Disposals | (255) | (12) |
| Depreciation | (225) | (412) |
| FX loss on translation | (1) | (4) |
| | 355 | 476 |
| Computer Software Cost | | |
| Opening balance | - | - |
| Additions | 3,078 | - |
| Disposals | - | - |
| Depreciation | (291) | - |
| | 2,787 | - |

## 13. OTHER ASSETS

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Accrued interest | 26,640 | 26,974 |
| Related party loan balances | 7,589 | 16,201 |
| FX forward hedge revaluation | - | 1,409 |
| Other assets | 13,521 | 17,633 |
| | **47,750** | **62,217** |

## 14. DUE TO OTHER FINANCIAL INSTITUTIONS

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Short term money market deposits | 203,245 | 185,933 |
| | **203,245** | **185,933** |

## 15. DEPOSITS AND SHORT TERM BORROWINGS

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Retail deposits | 1,592,992 | 1,032,382 |
| Certificates of deposit | 1,443,788 | 2,084,736 |
| Commercial Paper | 1,594,038 | 746,407 |
| | **4,630,818** | **3,863,525** |

Maturity details are included in the maturity profile at Note 31 (b).

## 16. MEDIUM TERM DEBT

| | 2001 $'000 | 2000 $'000 |
|---|---|---|
| Medium Term Notes | 599,238 | 596,505 |
| Floating Rate Notes | - | 50,000 |
| | **599,238** | **646,505** |
| AUD 200M 5.00% notes due 22/11/01 | - | 396,911 |
| AUD 200M 4.75% notes due 21/11/03 | 199,616 | - |
| AUD 200M 5.50% notes due 22/04/04 | 199,704 | 199,594 |
| AUD 200M 5.50% notes due 22/04/04 | 199,918 | - |
| AUD 50M floating rate notes 3 month BBSW +0.13% due 06/03/01 | - | 50,000 |
| | **599,238** | **646,505** |

## 17. CONCENTRATION OF DEPOSITS, BORROWINGS & LOAN CAPITAL

**Risk concentration by liability class as at 31 December 2001**

| | Due to other Financial Institution $'000 | Deposits & short term borrowings $'000 | Medium Term debt $'000 | Loan Capital $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Capital market – Domestic | 187,165 | 1,007,254 | 599,238 | 100,000 | 1,893,657 |
| Capital market – Euro | - | 1,594,038 | - | - | 1,594,038 |
| Retail market – Domestic | - | 1,017,549 | - | - | 1,017,549 |
| Total Australia | 187,165 | 3,618,841 | 599,238 | 100,000 | 4,505,244 |
| **New Zealand** | | | | | |
| Capital market – Domestic | - | 436,534 | - | - | 436,534 |
| Retail market – Domestic | - | 411,260 | - | - | 411,260 |
| Total New Zealand | - | 847,794 | - | - | 847,794 |
| **United Kingdom** | | | | | |
| Capital market – Domestic | 16,080 | - | - | - | 16,080 |
| Retail market – Domestic | - | 164,183 | - | - | 164,183 |
| Total United Kingdom | 16,080 | 164,183 | - | - | 180,263 |
| Gross Balances | 203,245 | 4,630,818 | 599,238 | 100,000 | 5,533,301 |

**Risk concentration by liability class as at 31 December 2000**

| | Due to other Financial Institution $'000 | Deposits & short term borrowings $'000 | Medium Term debt $'000 | Loan Capital $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Capital market – Domestic | 185,933 | 1,074,194 | 646,505 | 100,000 | 2,006,632 |
| Capital market – Euro | - | 746,407 | - | - | 746,407 |
| Retail market – Domestic | - | 614,844 | - | - | 614,844 |
| Total Australia | 185,933 | 2,435,445 | 646,505 | 100,000 | 3,367,883 |
| **New Zealand** | | | | | |
| Capital market – Domestic | - | 1,010,541 | - | - | 1,010,541 |
| Retail market – Domestic | - | 323,981 | - | - | 323,981 |
| Total New Zealand | - | 1,334,522 | - | - | 1,334,522 |
| **United Kingdom** | | | | | |
| Capital market – Domestic | - | - | - | - | - |
| Retail market – Domestic | - | 93,558 | - | - | 93,558 |
| Total United Kingdom | - | 93,558 | - | - | 93,558 |
| Gross Balances | 185,933 | 3,863,525 | 646,505 | 100,000 | 4,795,963 |

## 18. OTHER PROVISIONS

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Employee entitlements | 6,030 | 3,801 |
| Other provisions | 12,069 | 9,344 |
| | **18,099** | **13,145** |

## 19. OTHER LIABILITIES

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Accrued interest | 22,101 | 17,184 |
| Related party loan balances | 20,323 | 5,567 |
| FX forward hedge revaluation | 12,894 | 55,356 |
| Other liabilities | 89,050 | 45,810 |
| | **144,368** | **123,917** |

## 20. LOAN CAPITAL

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Floating Rate Subordinated Notes | 100,000 | 100,000 |
| | **100,000** | **100,000** |
| AUD 100M floating rate notes 3 month BBSW +0.56% due 22/04/09 call date 22/4/04 | 100,000 | 100,000 |
| | **100,000** | **100,000** |

The above notes are subordinated in right of payment to the claims of depositors and all other creditors of the company. Subordinated notes with an original maturity of at least 5 years constitute Tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes.

## 21. CONTRIBUTED EQUITY

| | | |
|---|---|---|
| Paid-up capital | | |
| 688,214,056 fully paid ordinary shares | 489,000 | 334,000 |
| (2000 - 394,362,356 fully paid ordinary shares) | | |
| | **489,000** | **334,000** |
| Opening Balance | 334,000 | 275,000 |
| Shares issued during the year | | |
| 44,095,330 on 21 June 2000 at $0.6123 each | | 27,000 |
| 52,362,593 on 30 October 2000 at $0.6111 each | | 32,000 |
| 62,607,376 on 30 January 2001 at $0.5590 each | 35,000 | |
| 92,622,642 on 31 March 2001 at $0.5398 each | 50,000 | |
| 78,107,181 on 29 June 2001 at $0.5121 each | 40,000 | |
| 60,514,501 on 31 October 2001 at $0.4957 each | 30,000 | |
| | **489,000** | **334,000** |

The Bank is wholly owned by AMP Financial Investment Group Holdings Limited. The ultimate holding company is AMP Limited.

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, either in person or by proxy, at a meeting of the company.

## 22. RESERVES AND ACCUMULATED LOSSES

Retained Profits (Accumulated Losses)

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Balance as the beginning of the year | (110,941) | (53,553) |
| Net Loss attributable to the members of the bank | (46,633) | (57,388) |
| Balance as the end of the year | **(157,574)** | **(110,941)** |

## 23. OTHER COMMITMENTS

a) Commitments to provide credit

| | Face Value 2001 $'000 | Credit Equivalent 2001 $'000 | Face Value 2000 $'000 | Credit Equivalent 2000 $'000 |
|---|---|---|---|---|
| Commitments to provide credit | **972,847** | **38,586** | **817,030** | **-** |

Commitments to provide credit include all obligations on the part of the Bank to provide funding facilities.

b) Lease expenditure commitments

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Operating leases | | |
| Due within one year | 4,858 | 6,454 |
| Due within one to two years | 4,522 | 6,577 |
| Due within two to five years | 6,013 | 12,182 |
| | **15,393** | **25,213** |

*Contingent Rentals*
Leases agreements over premises include clauses for the Bank to contribute to the outgoing associated with the operation of the building.

*Renewal and Purchase Options*
The Bank, as lessee of premises, has options to extend the terms of certain leases for periods of three and five years.

*Escalation Clauses*
A number of the leases over premises include clauses for the escalation of rents on an annual basis. A number of escalation factors are used which include a fixed percentage, consumer price index and movement to market value.

*Financial Covenants*
The Bank is not subject to any financial covenants under any of its leases.

## 24. EMPLOYEE ENTITLEMENTS

The aggregate employee entitlement liability disclosed in Note 18 is comprised of:

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Provision for long service leave | 995 | 328 |
| Provision for annual leave | 2,116 | 1,608 |
| Other provisions | 2,919 | 1,865 |
| | **6,030** | **3,801** |

*Superannuation commitments*
The Bank contributes to two superannuation plans in respect of employees. One of these plans, the AMP Officers' Provident Fund, is a defined benefits superannuation fund for employees of various entities in the AMP Group. The other plan is a defined contributions plan.

Contributions by the Bank to that fund, on a basis recommended by the actuaries to the fund, amounted to $Nil in the period. Contributions are charged against operating income when due. At 1 April 2001, being the date of the latest actuarial valuation of the fund:

| | $M April 01 | $M June 99 |
|---|---|---|
| Accrued benefits | 936 | 493 |
| Net market value of fund assets | 1,055 | 671 |
| Net surplus | 119 | 178 |

The AMP Officers' Provident Fund is a general fund for employees of the AMP group and it is not practical to determine the Bank's share of the plan.

## 25. DIRECTORS' REMUNERATION

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Income paid or payable or otherwise made available, in respect of the period, to all directors of AMP Bank Limited, directly or indirectly from the Entity or any related entity | 8,650 | 8,982 |

| The number of directors of AMP Bank Limited whose income (including superannuation contributions) falls within the following bands is: | 2001 Number | 2000 Number |
|---|---|---|
| $30,000-39,999 | 2 | 1 |
| $50,000-59,999 | - | 1 |
| $130,000-139,999 | - | 1 |
| $180,000-189,999 | 1 | - |
| $480,000-489,999 | 1 | - |
| $500,000-509,999 | - | 1 |
| $650,000-659,999 | - | 1 |
| $670,000-679,999 | 1 | - |
| $1,170,000-1,179,999 | 1 | - |
| $1,350,000-1,359,999 | 1 | - |
| $1,360,000-1,369,999 | 1 | - |
| $1,430,000-1,439,999 | - | 1 |
| $1,540,000-1,549,999 | - | 1 |
| $3,340,000-3,349,999 | 1 | - |
| $4,600,000-4,609,999 | - | 1 |
| | 9 | 8 |

## 26. AUDITORS' REMUNERATION

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Amounts paid or due and payable to the auditors for | | |
| Auditing the accounts | 290 | 227 |
| Other services | 301 | 295 |
| | **591** | **522** |

## 27. RELATED PARTY TRANSACTIONS

Australian banks have been exempted (subject to certain conditions), under an Australian Securities and Investments Commission ("ASIC") Class Order No. 98/0110 dated 10 July 1998, from making disclosure of:

- any loan made, guaranteed or secured by a bank to related parties (other than directors); and
- financial instrument transactions between related parties (other than in respect of shares and share options), where a director of the relevant entity is not party and where the loan or financial instrument transaction is lawfully made and occurs in the ordinary course of banking business on either an arms-length basis or with approval of a general meeting of the relevant entity and its ultimate chief entity.

The exemption does not cover transactions relating to the supply of goods and services to a bank, other than financial assets or services.

The Class Order does not apply to a loan or financial instrument transaction which any director of the Bank should reasonably be aware that, if not disclosed would have the potential to adversely affect the decisions made by users of the financial statements about the allocation of scarce resources.

A condition of the Class Order is that the Bank must lodge with the ASIC, a statutory declaration, signed by two directors, confirming compliance with the provisions of the Class Order. The Bank will be lodging such a declaration with the ASIC in its Annual Return in respect of the year ended 31 December 2001.

**Directors:**

The directors of the company during the period and the dates of appointments and resignations during the period are:

| | |
|---|---|
| P J Batchelor | |
| S W Balme | *(resigned 13/2/01)* |
| P A Cross | *(appointed 19/02/02)* |
| M J de Cure | |
| C W Dunn | *(appointed 13/2/01)* |
| D T Dunton | |
| P D Leaming | *(resigned 2/05/01)* |
| A M Mohl | |
| J L Palmer | |
| I A Renard | *(appointed 1/3/02)* |
| T C Wade | |

## 27. RELATED PARTY TRANSACTIONS (continued)

**Loans to directors:**

| | 2001 $ | 2000 $ |
|---|---|---|
| Aggregate amount of loans outstanding as at prior year end: | 2,519,072 | 119,136 |
| Aggregate loans to directors appointed | 495,432 | - |
| Aggregate loan advances during the period: | 2,081,503 | 2,399,936 |
| Aggregate loan repayments during the period: | 1,301,367 | - |
| Aggregate amount of loans outstanding as at year end: | 3,794,640 | 2,519,072 |

*Other transactions of directors and their director related entities:*

*Financial instrument transactions*
The Bank provides a range of financial services, including housing loans, credit cards and bank accounts. These transactions with the directors of the Bank occur in the ordinary course of business and are subject to normal commercial terms.

*Transactions with related parties*
AMP Limited and companies within its group provided the Bank with certain administrative and management services including distribution, treasury, payroll, property and computing facilities. 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 recovered costs from related parties within the wholly owned group on normal commercial terms and conditions.

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

On 14th May 1998 AMP Limited entered into a deed with AMP Bank Limited which provides interalia, arrangements to provide certain capital and liquidity support to the Bank.

The Bank has received guarantees from companies within the AMP Group relating to the receipt of interest and principal on "loans on life policies".

The Bank has issued securities to related parties within the wholly owned group on normal commercial terms in the ordinary course of business.

The Bank has sold tax losses to various entities within the AMP Group.

## 27. RELATED PARTY TRANSACTIONS (continued)

The following aggregate amounts are the related party transactions for the financial year:

| | 2001<br>$ | 2000<br>$ |
|---|---|---|
| Current balances due from related parties within the wholly owned group: | 5,466,856 | 26,222,236 |
| Current balances due to related parties within the wholly owned group: | 20,322,682 | 433,828,409 |
| Interest income from transactions with related parties within the wholly owned group: | 109,082 | 532,892 |
| Other income from transactions with related parties within the wholly owned group: | 2,369,619 | 237,687 |
| Interest expense from transactions with related parties within the wholly owned group: | 21,719,233 | 27,673,288 |
| Other expenses from transactions with related parties within the wholly owned group: | 23,351,165 | 17,626,367 |

## 28. NOTES TO THE STATEMENT OF CASH FLOWS

### i) Reconciliation of the loss from ordinary activities after tax to the net cash flows from operations:

| | 2001<br>$' 000 | 2000<br>$' 000 |
|---|---|---|
| Loss from ordinary activities after tax | (46,633) | (57,388) |
| Decrease/(increase) in interest receivable | 334 | (5,490) |
| Increase in interest payable | 4,917 | 4,911 |
| Depreciation expense | 978 | 876 |
| Loss on sale of plant and equipment | (9) | - |
| Increase in reserve for doubtful debts | 10,603 | 6,642 |
| Increase in provisions | 4,954 | 4,530 |
| Increase in future tax benefits | (6,978) | (9,878) |
| Net cash flows from operating activities | **(31,834)** | **(55,797)** |

### ii) Reconciliation of cash

| | | |
|---|---|---|
| Settlement account balances with banks | 9,550 | 4,818 |
| Deposits with other financial institutions (Note 6.) | 442,463 | 256,509 |
| Cash and cash equivalents at end of year | **452,013** | **261,327** |

### iii) Unutilised credit lines

The Bank has unutilised committed short-term credit facilities of $400 million (2000 $400 million).

### iv) Acquisition of assets

*During the previous financial year,* the Bank acquired the loan on policy portfolio and retail deposit portfolio from Pearl Assurance PLC.

| | 2001 $' 000 | 2000 $' 000 |
|---|---|---|
| Cash consideration | - | (27,228) |
| Assets & Liabilities Purchased: | | |
| Loans & Advances | - | 25,293 |
| Interest Receivable | - | 8,677 |
| Retail Deposits | - | (61,101) |
| Other Liabilities | - | (97) |
| Net assets acquired | **-** | **(27,228)** |

## 29. CONTROLLED ENTITIES

***Investment in controlled entities:***

| Name | Country of Incorporation | Issued Capital | % Held | Book value of parent Investment | Contribution To Profit | Accumulated Profits |
|---|---|---|---|---|---|---|
| Priority One Agency Services Pty Ltd | Australia | $2 | 100 | - | - | - |

## 30. MARKET RISK

The Bank is exposed to adverse events in financial markets, known as market risks, which may result in a loss of earnings. These include liquidity risk, funding risk, interest rate risk and foreign exchange risk.

### i) Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments as they fall due. The Bank carries a conservative level of high-quality, liquid assets, according to policy approved by the Board, and in excess of prudential minimums. The Bank also ensures a positive cash flow (maturing assets and committed standby lines exceed maturing liabilities) for at least the next 15 business days of operations. Where possible and within set cost targets, the Bank raises long term liabilities to minimise its exposure.

## 30. MARKET RISK (continued)

### ii) Funding risk

Funding risk arises from a concentration of funding in one particular market. Consequences can include the inability to rollover or raise new funds, or volatility of cost. The major technique to avoid funding risk is to diversify sources across different markets, including retail and wholesale, domestic and international, short and long term, and divergent types of institutions. The Bank has established a wide diversity of programmes and relationships. The Bank has established the following programmes:

- AUD3 billion Australian Domestic Medium Term Note programme
- USD3 billion Euro-Commercial Paper programme.
- USD1 billion Domestic-Commercial Paper programme
- Australian Domestic Negotiable Certificate of Deposit Programme (unlimited)
- New Zealand Domestic Negotiable Certificate of Deposit Programme (unlimited)
- NZD500 million New Zealand Domestic Medium Term Note programme
- USD 5 billion multi issuer Debt securities programme

### iii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will have an adverse impact on the net interest income of the Bank. The risk arises from the structure and repricing characteristics of assets and liabilities, both on- and off-balance sheet. The objective of interest rate risk management is to ensure stable earnings, with variations within limits set by the Bank's Asset and Liability Committee (ALCO), and approved by the Board.

There is no trading book separate from the balance sheet position.

The Bank uses a 'value at risk' approach to manage interest rate risk. An estimate of likely future movements in interest rates, based on historical movements and the dollar effect (profit or loss) of such a movement is measured. This approach measures the potential change in net present value of assets and liabilities due to mismatches in the repricing profile. The Bank's Asset and Liability Committee ("ALCO") sets conservative levels for the maximum 'value at risk', and Treasury must ensure actual usage falls within this limit, for the entire Australian dollar, New Zealand dollar and British pounds balance sheets.

### iv) Foreign exchange risk

The Bank does not take unhedged foreign exchange exposures. There is no trading in currencies, and any funding raised in a non-domestic currency (Australian dollars, New Zealand dollars or British pounds) is immediately hedged into the domestic currency.

## 31. DISCLOSURES IN RELATION TO FINANCIAL INSTRUMENTS

### (a) Derivatives

The following table details the Bank's outstanding derivative contracts as at the end of the year. Derivatives transactions are entered into in order to manage the risks arising from non traded assets, liabilities and commitments in Australia and New Zealand.

The 'face value' is the notional or contractual amount of the derivatives. This amount is not necessarily exchanged and predominantly acts as reference value upon which interest payments and net settlements can be calculated and on which revaluation is based.

The 'credit equivalent' is a number calculated using a standard Australian Prudential Regulation Authority formula and is disclosed for each product class. This amount is a measure of the on-balance sheet loan equivalent of the derivative contracts, which includes a specified percentage of the face value of each contract plus the market value of all contracts with an unrealised gain at balance date. The credit equivalent does not take into account any benefits of netting exposures to individual counterparties.

The accounting policy for derivative financial instruments is set out in Note 1(s).

| | Face Value *2001* $'000 | Credit Equivalent *2001* $'000 | Face Value *2000* $'000 | Credit Equivalent *2000* $'000 |
|---|---|---|---|---|
| Foreign Exchange rate related contracts | | | | |
| AUD Forwards | 1,341,686 | 29,450 | 701,339 | 8,550 |
| NZD Forwards | 1,508,514 | 24,490 | 800,297 | 7,710 |
| GBP Forwards | 359,720 | 4,430 | 109,183 | 2,300 |
| | 3,209,920 | 58,370 | 1,610,819 | 18,560 |
| Interest rate related contracts | | | | |
| Forwards | 1,135,509 | - | 87,601 | - |
| Swaps | 3,942,140 | 38,015 | 2,665,324 | 10,560 |
| Futures | 50,000 | - | - | - |
| | 5,127,649 | 38,015 | 2,752,925 | 10,560 |

All foreign exchange contracts mature within 12 months.

## (b) Maturity profile

The maturity distribution of assets and liabilities is based on contractual terms.

**Year Ended 31 December 2001**

| | At call $'000 | 0 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Not specified $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and liquid assets | 9,550 | - | - | - | - | - | 9,550 |
| Due from other financial institutions | 434,600 | 7,268 | 595 | - | - | - | 442,463 |
| Investment securities | - | 1,089,736 | 44,416 | - | - | 3 | 1,134,155 |
| Loans and advances | 171,930 | 269,920 | 142,275 | 636,954 | 3,126,969 | - | 4,348,048 |
| Deposits with regulatory authorities | - | - | - | - | - | - | - |
| Total interest earning assets | 616,080 | 1,366,924 | 187,286 | 636,954 | 3,126,969 | 3 | 5,934,216 |
| Non-interest earning assets | - | - | - | - | - | 92,978 | 92,978 |
| Total assets | 616,080 | 1,366,924 | 187,286 | 636,954 | 3,126,969 | 92,981 | 6,027,194 |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | 203,245 | - | - | - | - | - | 203,245 |
| Deposits and short term borrowings | 1,201,415 | 2,982,822 | 389,104 | 57,477 | - | - | 4,630,818 |
| Medium term debt | - | - | - | 599,238 | - | - | 599,238 |
| Loan Capital | - | - | - | - | 100,000 | - | 100,000 |
| *Total interest bearing liabilities* | *1,404,660* | *2,982,822* | *389,104* | *656,715* | *100,000* | | *5,533,301* |
| Non-interest bearing liabilities | - | - | - | - | - | 162,467 | 162,467 |
| Total liabilities | 1,404,660 | 2,982,822 | 389,104 | 656,715 | 100,000 | 162,467 | 5,695,768 |

**Year Ended 31 December 2000**

| | At call $'000 | 0 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Not specified $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and liquid assets | 4,818 | - | - | - | - | - | 4,818 |
| Due from other financial institutions | 256,509 | - | - | - | - | - | 256,509 |
| Investment securities | - | 527,745 | 9,812 | - | - | 3 | 537,560 |
| Loans and advances | 149,806 | 260,863 | 92,981 | 487,989 | 3,268,053 | - | 4,259,692 |
| Deposits with regulatory authorities | - | - | - | - | - | - | - |
| Total interest earning assets | 411,133 | 788,608 | 102,793 | 487,989 | 3,268,053 | 3 | 5,058,579 |
| Non-interest earning assets | - | - | - | - | - | 97,505 | 97,505 |
| Total assets | 411,133 | 788,608 | 102,793 | 487,989 | 3,268,053 | 97,508 | 5,156,084 |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | - | 185,933 | - | - | - | - | 185,933 |
| Deposits and short term borrowings | 631,467 | 2,695,867 | 491,155 | 45,036 | - | - | 3,863,525 |
| Medium term debt | - | 50,000 | 396,911 | - | 199,594 | - | 646,505 |
| Loan Capital | - | - | - | - | 100,000 | - | 100,000 |
| Total interest bearing liabilities | 631,467 | 2,931,800 | 888,066 | 45,036 | 299,594 | - | 4,795,963 |
| Non-interest bearing liabilities | - | - | - | - | - | 137,062 | 137,062 |
| Total liabilities | 631,467 | 2,931,800 | 888,066 | 45,036 | 299,594 | 137,062 | 4,933,025 |

## *Unutilised funding programmes*

AUD 400 million in standby facilities disclosed in Note 28(iii).

## (c) Interest sensitivity

The following table represents the contractual repricing characteristics of assets and liabilities for the Bank, as at 31 December 2001, within the time periods indicated. The Bank may modify this information in its interest rate management process, as the contractual obligations may not reflect the expected repricing characteristics in all cases.

**Contractual repricing period from 31 December 2001**

| | Balance sheet total $'000 | 0 to 1 month $'000 | 1 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Not interest bearing $'000 | Weighted average rate % |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 9,550 | 9,550 | - | - | - | - | 5.75% |
| Due from other financial institutions | 442,463 | 437,496 | 4,372 | 595 | - | - | 5.39% |
| Investment securities | 1,134,155 | 466,506 | 623,230 | 44,416 | - | 3 | 5.22% |
| Loans and advances | 4,348,048 | 2,517,874 | 176,472 | 988,738 | 664,964 | - | 7.52% |
| Total interest earning assets | 5,934,216 | 3,431,426 | 804,074 | 1,033,749 | 664,964 | 3 | 7.11% |
| Non interest earning assets | 92,978 | - | - | - | - | 92,978 | n/a |
| Total assets | 6,027,194 | 3,431,426 | 804,074 | 1,033,749 | 664,964 | 92,981 | 7.03% |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | 203,245 | 203,245 | - | - | - | - | 4.48% |
| Deposits and short term borrowings | 4,630,818 | 2,743,885 | 1,440,351 | 389,104 | 57,478 | - | 5.47% |
| Medium term debt | 599,238 | - | - | - | 599,238 | - | 5.80% |
| Loan Capital | 100,000 | 100,000 | - | - | - | - | 5.68% |
| Total interest bearing liabilities | 5,533,301 | 3,047,130 | 1,440,351 | 389,104 | 656,716 | - | 5.80% |
| Non-interest bearing liabilities | 162,467 | - | - | - | - | 162,467 | n/a |
| Total liabilities | 5,695,768 | 3,047,130 | 1,440,351 | 389,104 | 656,716 | 162,467 | 5.71% |
| **Equity** | 331,426 | - | - | - | - | 331,426 | n/a |
| **On balance sheet sensitivity** | - | 384,296 | (636,277) | 644,645 | 8,248 | (400,912) | n/a |
| **Off balance sheet items** | | | | | | | |
| Interest rate swaps | n/a | (161,798) | 630,019 | (406,693) | (61,528) | | n/a |
| Futures | n/a | - | - | - | - | - | n/a |
| Forward rate agreements | n/a | 78,869 | 312,504 | (391,373) | - | | n/a |
| **Off balance sheet sensitivity** | n/a | (82,929) | 942,523 | (798,066) | (61,528) | | n/a |
| **Net mismatch** | n/a | 301,367 | 306,246 | (153,421) | (53,280) | (400,912) | n/a |
| **Cumulative mismatch** | n/a | 301,367 | 607,613 | 454,192 | 400,912 | - | n/a |

All interest bearing assets and liabilities are due for repricing within five years.

## Contractual repricing period from 31 December 2000

| | Balance sheet total $'000 | 0 to 1 month $'000 | 1 to 3 months $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Not interest bearing $'000 | Weighted average rate % |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 4,818 | 4,818 | - | - | - | - | 5.02% |
| Due from other financial institutions | 256,509 | 256,509 | - | - | - | - | 5.97% |
| Investment securities | 537,560 | 447,298 | 80,447 | 9,812 | - | 3 | 5.98% |
| Loans and advances | 4,259,692 | 2,432,143 | 364,641 | 626,533 | 836,375 | - | 7.90% |
| Total interest earning assets | 5,058,579 | 3,140,768 | 445,088 | 636,345 | 836,375 | 3 | 7.32% |
| Non interest earning assets | 97,505 | - | - | - | - | 97,505 | N/a |
| Total assets | 5,156,084 | 3,140,768 | 445,088 | 636,345 | 836,375 | 97,508 | 7.19% |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | 185,933 | 185,933 | - | - | - | - | 6.46% |
| Deposits and short term borrowings | 3,863,525 | 1,665,015 | 1,662,319 | 491,155 | 45,036 | - | 6.15% |
| Medium term debt | 646,505 | | 50,000 | 397,670 | 198,835 | - | 5.99% |
| Loan Capital | 100,000 | 100,000 | - | - | - | - | 5.99% |
| Total interest bearing liabilities | 4,795,963 | 1,950,948 | 1,712,319 | 888,825 | 243,871 | - | 6.35% |
| Non-interest bearing liabilities | 137,062 | - | - | - | - | 137,062 | N/a |
| Total liabilities | 4,933,025 | 1,950,948 | 1,712,319 | 888,825 | 243,871 | 137,062 | 6.30% |
| **Shareholders' equity** | 223,059 | - | - | - | - | 223,059 | N/a |
| **On balance sheet sensitivity** | - | 1,189,820 | (1,267,231) | (252,480) | 592,504 | (262,613) | N/a |
| **Off balance sheet items** | | | | | | | |
| Interest rate swaps | n/a | 368,304 | 245,697 | 9,258 | (623,259) | - | N/a |
| Forward rate agreements | n/a | - | - | - | - | - | N/a |
| **Off balance sheet sensitivity** | n/a | 368,304 | 245,697 | 9,258 | (623,259) | - | N/a |
| **Net mismatch** | n/a | 1,558,124 | (1,021,534) | (243,222) | (30,755) | (262,613) | N/a |
| **Cumulative mismatch** | n/a | 1,558,124 | 536,590 | 293,368 | 262,613 | - | N/a |

All interest bearing assets and liabilities are due for repricing within five years.

## (d). Net fair values of financial instruments

These amounts represent estimates of net fair values at the end of the financial year.

| | Carrying Value 2001 $'000 | Net Fair Value 2001 $'000 | Carrying Value 2000 $'000 | Net Fair Value 2000 $'000 |
|---|---|---|---|---|
| **On-balance sheet** | | | | |
| **Financial assets** | | | | |
| Cash | 9,550 | 9,550 | 4,818 | 4,818 |
| Due from other financial institutions | 442,463 | 440,923 | 256,509 | 256,509 |
| Investment securities | 1,134,155 | 1,134,156 | 537,560 | 537,579 |
| Loans and advances | 4,348,048 | 4,413,506 | 4,259,692 | 4,202,429 |
| Total financial assets | 5,934,216 | 5,998,135 | 5,058,579 | 5,001,335 |
| **Financial liabilities** | | | | |
| Due to other financial institutions | 203,245 | 204,048 | 185,933 | 185,933 |
| Retail deposits | 1,592,992 | 1,596,935 | 1,032,382 | 1,040,467 |
| Certificates of deposit | 1,443,788 | 1,444,441 | 2,084,736 | 2,085,330 |
| Commercial paper | 1,594,038 | 1,589,471 | 746,407 | 747,037 |
| Medium term notes | 599,238 | 595,586 | 596,505 | 592,932 |
| Floating rate notes | - | - | 50,000 | 50,193 |
| Subordinated notes | 100,000 | 104,083 | 100,000 | 104,931 |
| Total financial liabilities | 5,533,301 | 5,534,564 | 4,795,963 | 4,806,823 |
| **Derivatives** | | | | |
| **Financial assets** | | | | |
| Interest rate swap agreements | - | - | - | 761 |
| Forward rate agreements | - | - | - | 89 |
| Futures | - | 6 | - | - |
| Foreign exchange swaps | - | - | 1,409 | 1,409 |
| Total financial assets | | 6 | 1,409 | 2,259 |
| **Financial liabilities** | | | | |
| Interest rate swap agreements | - | 15,687 | - | 14,649 |
| Forward rate agreements | - | 420 | - | 62 |
| Foreign exchange swaps | 12,894 | 12,894 | 55,356 | 55,356 |
| Total financial liabilities | 12,894 | 29,001 | 55,356 | 70,067 |

The net fair value estimates were determined by the following methodologies and assumptions:

*1. On-balance sheet*

*Cash, liquid assets and due from other financial institutions*
The carrying values of cash and liquid assets and receivables due from financial institutions approximate their net fair value as they are short term in nature or are receivable on demand.

**(d). Net fair values of financial instruments (continued)**

*Investment securities*
The carrying value of bank accepted bills, negotiable certificates of deposit and Treasury notes held as liquidity approximate their net fair value as they are short term in nature.

*Loans and advances*
For variable rate loans and credit card advances, the contractual balance is a reasonable estimate of net fair value.

For fixed rate loans, the net fair value was calculated by utilising a discounted cash flow model (ie. the net present value of the future principal and interest cash flows), based on the repayment schedule of the loans. The discount rates applied were based on the current benchmark rate for the remaining term of the loans.

*Due to other financial institutions*
The carrying values of deposits from other financial institutions approximate their net fair value as they are short term in nature.

*Retail deposits*
For retail deposits the carrying amount is a reasonable estimate of net fair value.

*Certificates of deposit, Commercial Paper, Medium Term Notes, Floating Rate Notes and Subordinated notes.*
The fair value of the above mentioned securities is calculated based on quoted market prices.

2. *Off-balance sheet*

*Interest rate swap agreements*
The net fair value of interest rate swap agreements is determined as the difference in present value of the future interest cash flows. The discount rates applied were based on quoted market prices.

*FX Forward rate agreements*
The net fair value of forward rate agreements is determined as the difference in present value of the future cash flows. The discount rates applied were based on quoted market prices. Any assets or liabilities that are hedged by FX forward rate agreements are carried in the balance sheet at net fair value. The FX forward rate agreements are also carried at fair value in the balance sheet.

*Foreign exchange swaps*
The net fair value of foreign exchange swap agreements is determined as the gain or loss, at balance date, by applying the closing quoted market spot rate.

*Interest Rate Options*
The net fair value of interest rate options is calculated using Black and Scholes option pricing model. The interest rate and volatility used in the calculation are sourced from closing quoted market interest rates and implied volatility.

**(d). Net fair values of financial instruments (continued)**

*3. Financial assets in excess of net fair value*

A number of financial assets are recognised in excess of their net fair value. The net fair value of these financial assets is less than the carrying value due to the prevailing market interest rate being higher than the interest rate implicit in the financial asset. Accordingly these financial assets have not been written down to net fair value as the directors believe that the carrying value will be recovered.

## 32. FINANCIAL REPORTING BY SEGMENTS

### Geographic segments

| | 2001 $'000 | 2001 % | 2000 $'000 | 2000 % |
|---|---|---|---|---|
| **Assets** | | | | |
| Australia | 5,015,177 | 83% | 3,715,670 | 72% |
| New Zealand | 2,343,958 | 39% | 2,129,353 | 41% |
| United Kingdom | 745,279 | 12% | 200,801 | 4% |
| Elimination | (2,077,220) | -34% | (889,740) | -17% |
| | **6,027,194** | | **5,156,084** | |
| **Operating Revenue** | | | | |
| **Interest Income** | | | | |
| Australia | 285,376 | 65.1% | 271,058 | 68.3% |
| New Zealand | 172,285 | 39.3% | 154,255 | 38.9% |
| United Kingdom | 24,436 | 5.6% | 6,638 | 1.7% |
| Elimination | (63,361) | -14.5% | (49,692) | -12.5% |
| **Non-Interest Income** | | | | |
| Australia | 15,269 | 3.5% | 12,082 | 3.0% |
| New Zealand | 3,132 | 0.7% | 2,280 | 0.5% |
| United Kingdom | 1,126 | 0.3% | 241 | 0.1% |
| | **438,263** | | **396,862** | |
| **Loss from operating activities before tax** | | | | |
| Australia | (14,456) | 22% | (45,517) | 57% |
| New Zealand | (26,484) | 41% | (26,254) | 33% |
| United Kingdom | (24,274) | 37% | (8,293) | 10% |
| | **(65,214)** | | **(80,064)** | |
| **Loss from operating activities after tax** | | | | |
| Australia | (10,031) | 21% | (33,633) | 59% |
| New Zealand | (18,990) | 41% | (17,890) | 31% |
| United Kingdom | (17,612) | 38% | (5,865) | 10% |
| | **(46,633)** | | **(57,388)** | |

### Industry segments

The Bank operates predominantly in the banking and finance industry.

The basis of inter-segment pricing is market prices.

## 33. CAPITAL ADEQUACY

The capital adequacy ratios of AMP Bank are as follows:

| | 2001 | 2000 |
|---|---|---|
| Tier 1 capital ratio | 9.18% | 6.75% |
| Total capital ratio | 12.75% | 10.58% |

| | | 2001 $' 000 | 2000 $' 000 |
|---|---|---|---|
| Tier 1 capital: | | | |
| Share Capital | | 489,000 | 334,000 |
| Retained Earnings | | (157,574) | (110,941) |
| Less: Goodwill & intangible assets | | - | 1,897 |
| Less: Future Income Tax Benefits | | 39,995 | 33,017 |
| | | 291,431 | 188,145 |
| Tier 2 capital: | | | |
| General Provision for doubtful debts | | 13,430 | 12,607 |
| Loan Capital | 20 | 100,000 | 100,000 |
| Loan Capital (ineligible component) | | - | (5,928) |
| | | 113,430 | 106,679 |
| Total Capital | | 404,861 | 294,824 |

| | Risk Weights | Face Value 2001 $'000 | Face Value 2000 $'000 | Risk Weighted Balance 2001 $'000 | Risk Weighted Balance 2000 $'000 |
|---|---|---|---|---|---|
| **On Balance Sheet Assets** | | | | | |
| | **0%** | 200,511 | 225,058 | - | - |
| | **10%** | - | - | - | - |
| | **20%** | 1,393,460 | 601,945 | 278,692 | 120,389 |
| | **50%** | 3,157,830 | 3,373,842 | 1,578,915 | 1,686,921 |
| | **100%** | 1,265,446 | 973,589 | 1,265,446 | 973,589 |
| | | **6,017,247** | **5,174,434** | **3,123,053** | **2,780,899** |
| **Off Balance Sheet Assets** | | | | | |
| | **0%** | - | 816,590 | - | - |
| | **10%** | - | - | - | - |
| | **20%** | 91,430 | 29,120 | 18,286 | 5,824 |
| | **50%** | 19,816 | - | 9,908 | - |
| | **100%** | 23,726 | - | 23,726 | - |
| | | **134,971** | **845,710** | **51,920** | **5,824** |
| **Total Risk Assets** | | **6,152,176** | **6,020,144** | **3,174,948** | **2,786,723** |

## 34. ULTIMATE HOLDING COMPANY

The immediate holding company of AMP Bank Limited is AMP Financial Investment Group Holdings Limited.

The ultimate holding company of AMP Bank Limited is AMP Limited.

On 14th May 1998 AMP Limited entered into a deed with AMP Bank Limited which provides interalia, arrangements to provide certain capital and liquidity support to the Bank.

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of AMP Bank Limited, We state that:

(1) In the opinion of the Directors:
- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 31 December 2001 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

................................................ Director

................................................ Director

Dated
26 march 2002

ERNST & YOUNG

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# INDEPENDENT AUDIT REPORT

To the members of AMP Bank Limited

**Scope**

We have audited the financial report of AMP Bank Limited for the financial year ended 31 December 2001, as set out on pages 8 to 49, including the Directors' Declaration. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

**Audit Opinion**

In our opinion, the financial report of AMP Bank Limited is in accordance with:

(a) the Corporations Act 2001 including:

  (i) giving a true and fair view of the company's financial position as at 31 December 2001 and its performance for the year ended on that date; and

  (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

Ernst & Young

Ernst & Young

D L Newton

Partner
Sydney

Date: 26 March 2002