Everyday Banking Home Loans Saving Super

Annual Report 2015

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CEO's Year in Review

2015 was another strong year for ING Bank (Australia) Limited ("the Group" or "ING DIRECT") which continued to perform in a competitive market.

Despite a challenging macro environment and increasingly tighter regulation we managed to grow our annual profit by 6% to an all-time record of $314.7 million, while delivering award winning innovations to Australians.

Through agile execution of our strategy, we managed to strike a balance between delivering a healthy return for our shareholder and fair value to our customers.

We ended the year well positioned to achieve success in 2016.

Our Customers

Delivering value to our customers continued to influence our decisions in 2015 as we enhanced our value proposition to encourage Australians to choose ING DIRECT as their main financial institution.

Following the free ATM proposition and Primary Bank Bonus launched in 2014, ING DIRECT expanded its unique rewards program by offering our mortgage customers cashback for their loyalty.

We also focused on delivering value to our broker partners with the introduction of ING DIRECT's new commission model. Following consultation with aggregators, the model rewards quality (LVR) over quantity (volume) and applies on new residential loans with new to ING DIRECT security property settled from 1 January 2016.

Our customers are at the heart of everything we do, so their feedback truly matters to us. We are proud that ING DIRECT maintained its market leading Net Promoter Score (+15) – how likely a customer is to recommend us to someone else - extending the gap to the nearest major bank to 36 points.

For our primary bank customers (those who pay their salary into an Orange Everyday account and hold another account with us) their advocacy level was even higher: NPS reached a record level of 60, beating the previous record of 56 set in October 2013.

Marketing

In 2015, ING DIRECT revealed the bank's new brand ambassador – actor Isla Fisher – alongside a new tagline: "how banking can be".

The campaign aimed to position ING DIRECT as a consumer facing bank despite having no physical branches, all the while highlighting that we are 'different from the rest'.

The effectiveness of our customer propositions in 2015 was recognised publically, with John Arnott (Executive Director, Customers) being named Chief Marketing Officer of the Year at the inaugural FST Media Banking and Technology Awards in Sydney. In announcing the award judges made special mention of how ING DIRECT defined its purpose and used it to create a compelling customer proposition and marketing campaign.

Primary Banking Relationships

In 2015, we ramped up our focus on becoming our customers' primary bank, resulting in the increased take up of our Orange Everyday transaction account.

Orange Everyday grew by 47% in 2015 – a net growth of 127,481 accounts.

The number of customers choosing us as their main financial institution increased by a record 60% in 2015, and we ended the year with a total of 206,263 primary bank customers.

Deposits

During 2015 we experienced a strong inflow of personal deposits (net $1.8 billion), reflecting the success of our primary bank strategy.

We currently hold $33.5 billion of retail deposits, which we use to fund lending to our home loan customers.

Residential Mortgages

Our residential mortgage portfolio grew by $1 billion during 2015.

We focused on delivering branded mortgages, growing our lending by $3.7 billion. To support this growth, we sold $2.4 billion non branded loans in the first half year. As a result, 97% of the mortgage portfolio is now branded ING DIRECT, up from 90% at the end of 2014.

Credit risk performance continued to be strong last year, with an improvement in the risk profile of the business. This was the result of a reduction in the LVRs of branded retail loans; a pull back on investor lending; prioritising credit quality of new business; arrears levels; and increasing house prices in a low interest rate environment.

Commercial Loans

The Commercial lending portfolio increased from $3.9 to $4.8 billion (23%) supporting our asset diversification strategy.

The Utilities, Infrastructure & Project Finance ("UIP") book contributed more than $0.4 billion, while Real Estate Finance grew by almost $0.2 billion.

The commercial mortgages comprising our Commercial Property Finance ("CPF") portfolio grew slightly to $1.7 billion in line with our strategy, whilst Priority Commercial Mortgages grew by $0.2b to $1.2b.

CEO's Year in Review

Superannuation

Three years after launch, Living Super has continued to be well received by customers and the market alike.

In 2015, Living Super achieved $1.7 billion funds under management, representing an annual growth of 45% for ING DIRECT. We also saw an increase in the number of customers taking out insurance with us, up 16% to 48%, following the introduction of automatic cover.

In April we started distributing Living Super via our network of advisors, enabling them to offer Living Super as part of their retirement planning solutions to their customers.

We were delighted to receive a CANSTAR award for Living Super, with a five star rating for outstanding value.

Efficiency and Innovation

In 2015, the Bank maintained its low cost to income ratio at 35% while operational costs over customer balances remained at 24 bps.

In late 2015, ING DIRECT started to trial our new online banking platform with employees and selected customers. Following feedback, testing and enhancement we will continue to add new features to our online banking to further enhance delivery and customer experience.

Funding and Liquidity

In 2015 liquidity conditions for the Bank were comfortable, with ample funding available across both retail and wholesale funding markets.

The Liquidity Coverage Ratio for the Australian market started from January 2015. During the year the Bank's overall liquidity position was managed to be well above the 100% minimum required by the APRA standard. By the end of the year, the Bank's LCR ratio was approximately 116%.

Reflecting the strength of the housing market and the Bank's attractive product offerings, growth in retail mortgages exceeded retail savings growth for the first time in a number of years. This resulted in a marginal decrease in the retail funding to loan mix to 76.3% from 78.5% a year earlier.

The funding position of the bank is strong and the plan is to continue to lengthen the duration of liabilities and reduce exposure to short term wholesale funding markets.

Capital

By the end of 2015, our capital adequacy ratio of 13.4% was well above both the regulatory minimum and our internal target.

As part of prudent capital management, in December 2015 the Group declared and provided for a $300 million (2014: $275 million) dividend payable to ING Bank N.V.

Sustainability

At ING DIRECT we are committed to helping our customers, the community and our staff get ahead with sustainability at the heart of the way we do business.

In 2015 we remained committed to financially empowering our community. Together with our customers we invested more than $250,000 in start-up social enterprises via our Dreamstarter crowdfunding initiative run in partnership with StartSomeGood and School for Social Entrepreneurs.

In partnership with United Way Australia we launched a financial education program for disadvantaged secondary students.

Our staff are central to our sustainability efforts. Almost 40% of our people volunteered their time, skills and expertise to our community partners. This represents a 30% increase on 2014 figures.

ING DIRECT was the top corporate fundraiser in Cerebral Palsy Alliance's 'Steptember' fundraising campaign. More than half of our people actively participated to raise $127,000 for the cause. Staff fundraising in 2015 was up almost 50% on 2014.

Our People

At ING DIRECT we recognise that the passion, energy and dedication of our people are integral to the successful execution of our strategy, and in delivering an exceptional customer experience.

We're dedicated to being a great place to work, helping our people get ahead by giving them the opportunity to fulfil their purpose, drive their career and contribute to the success of ING DIRECT in the longer term.

We are thankful for the awards we received in 2015, in particular those which were voted for by our customers. Some of our accolades included:

- Most innovative bank, and the 14th most innovative company in Australia, by BRW.
- Best Bank in the 2015 Mozo People's Choice Banking Awards for the sixth consecutive year;
- ING DIRECT was awarded the highest rated non-major bank in The Adviser's 2015 Third-Party Banking Report for the 4th year;
- Readers Digest awarded ING DIRECT as the most trusted Australian Bank;
- ING DIRECT topped the Australian Customer Experience Index 2015 by Forrester Research amongst 58 brands over 8 industries;
- Roy Morgan ranked ING DIRECT number one bank in customer satisfaction for home loan customers;
- CANSTAR awarded ING DIRECT's Living Super with five stars for outstanding value;

CEO's Year in Review

Our People (continued)

- Money Magazine awarded ING DIRECT's Orange Everyday the 2015 Best of the Best award for Best Everyday Account (Bank).

Diversity & inclusion

At ING DIRECT we are committed to a diverse and inclusive workplace.

Our focus on diversity and inclusion relates to differences in gender, age, ethnicity, race, cultural background, disability, religion and sexual orientation. It also includes differences in background and life experience, communication styles, interpersonal skills, education, functional expertise and problem solving skills.

Having a diverse range of employees better enables us to provide outstanding service to our customers, enhances our reputation as an inclusive employer, and helps to improve our business results.

In our experience, being a diverse workplace helps us attract, engage and retain employees. Our people value working in an organisation where differences are respected and everyone has the opportunity to succeed regardless of any consideration other than their ability to do their job.

Each year we review our performance and reward outcomes to ensure that no unconscious bias can be identified in the decisions of managers.

ING DIRECT is required by the Workplace Gender Equality Act 2012 to report our workforce gender profile as at 31 March each year. Our 2015 report was lodged with the Workplace Gender Equality Agency in May 2015.

Outlook

In 2016 we remain focused on fulfilling our purpose of helping our customers get ahead, and on becoming our customers' primary bank. We want to help our customers take control of their finances by offering fair value products and services, and an exceptional customer experience.

After 24 years with ING, I have decided to retire as CEO of ING DIRECT Australia and CEO of ING Retail Banking Asia in mid-2016. My successor will be Uday Sareen, currently President of the Operating Management Committee at Kotak Mahindra Bank India.

I look forward to all of us at ING DIRECT executing our strategy in 2016, and continuing to deliver a unique alternative in banking.

Vaughn Richtor
Chief Executive Officer,
ING DIRECT AUSTRALIA

Directors' report

The Directors of the Group submit their report, together with the financial report of the Bank and its controlled entities being:

- IDS Trust 2008-1;
- IDOL Trust Series 2010-1;
- IDOL Trust Series 2011-1;
- IDOL Trust Series 2011-2;
- IDOL Trust Series 2012-1;
- IDOL Trust Series 2012-2;
- IDOL Trust Series 2013-1;
- IDOL Trust Series 2013-2;
- IDOL Trust Series 2014-1; and
- IDOL Trust Series 2015-1

for the year ended 31 December 2015.

The names and details of the Directors of the Group holding office during the financial year and until the date of this report or otherwise stated are set out below, together with details of their qualifications and special responsibilities.

DIRECTORS' QUALIFICATIONS AND SPECIAL RESPONSIBILITIES

Michael Katz, BComm (Hons), Chairman
Mr Katz was appointed Director in January 2010 and was appointed Chairman of the Group in March 2011. Mr Katz is also Chairman of the Remuneration & Nomination Committee and is a member of the Audit and Risk Committees.

Amanda Lacaze, BA
Ms Lacaze was appointed Director in May 2011. Ms Lacaze is a member of the Audit, Risk and Remuneration & Nomination Committees.

John Masters, BComm (Hons), CA, Barrister-at-Law
Mr Masters was appointed Director in January 2010. Mr Masters is Chairman of the Audit Committee and is a member of the Risk Committee.

Ann Sherry AO, BA
Ms Sherry AO was appointed Director in August 2011. Ms Sherry AO chairs the Risk Committee and is a member of the Audit and Remuneration & Nomination Committees.

Vaughn Nigel Richtor, BA (Hons), Chief Executive Officer
Mr Richtor was appointed Director in February 2010. On 1 August 2012, Mr Richtor was appointed Chief Executive Officer.

Mark Edwin Newman, BSc (Hons)
Mr Newman was appointed Director in April 2015. Mr Newman is a member of the Audit, Risk and Remuneration & Nomination Committees.

Aris Bogdaneris, BSc, BA, M.A.
Mr Bogdaneris was appointed Director in August 2015. Mr Bogdaneris is a member of the Audit and Risk Committees.

Cornelis Petrus Adrianus Joseph Leenaars, LL.M, PMD
Mr Leenaars was appointed Director in March 2012 and resigned in June 2015. Mr Leenaars was a member of the Audit, Risk and Remuneration & Nomination Committees.

COMPANY SECRETARIES

Rodney Palmer Marston Saville, LL.B (Hons), BA, Solicitor
Mr Saville was appointed Company Secretary of the Group in February 2015 and attended all meetings of the Board and its Committees thereafter. Mr Saville is also the Head of Legal & Compliance for the Group.

Peter Seamus Dowdall, LL.B (Hons), BCom, LLM, Solicitor

Mr Dowdall was appointed Company Secretary of the Group in October 2014. Mr Dowdall attended the meetings of the Board and its Committees in February 2015. Mr Dowdall is a senior solicitor of the Group.

MEETINGS OF DIRECTORS

Director (eligible to attend)	Number Held	Number Attended
M Katz	5	5
A Lacaze	5	5
J Masters	5	5
A Sherry AO	5	4
V Richtor	5	5
M Newman	4	4
A Bogdaneris	2	2
C Leenaars	3	2

COMMITTEE MEETINGS

Director (eligible to attend)	Audit Committee		Risk Committee		R&N Committee*	
	Held	Attended	Held	Attended	Held	Attended
M Katz	5	5	5	5	3	3
A Lacaze	5	5	5	5	3	3
J Masters	5	5	5	5	N/A	N/A
A Sherry AO	5	4	5	5	3	2
V Richtor	N/A	N/A	N/A	N/A	N/A	N/A
M Newman	4	4	4	4	3	3
A Bogdaneris	2	2	2	2	N/A	N/A
C Leenaars	3	2	3	2	1	0

* R&N Committee - Remuneration & Nomination Committee

Directors' report (continued)

CORPORATE STRUCTURE

ING Bank (Australia) Limited is a company incorporated and domiciled in Australia. The registered office and principal place of business of the Bank is Level 14, 140 Sussex Street, Sydney NSW 2000. Its ultimate parent entity is ING Groep N.V. ING Bank (Australia) Limited is the legal entity. The Bank, trading as "ING DIRECT", has four operating divisions: *Mortgages*, *Savings*, *Commercial Loans and Superannuation.*

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was the provision of banking and related services. Further information on the operating activities and financial performance is detailed in the CEO report. There have been no significant changes in the nature of those activities during the year.

EMPLOYEES

The Group employed 1,056 permanent employees as at 31 December 2015 (2014: 1,019 permanent employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity at 31 December 2015 was $3,500 million (2014: $3,517 million).

The Bank continued to hold notes issued by the IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1, IDOL Trust Series 2012-2, IDOL Trust Series 2013-1, IDOL Trust Series 2013-2 and IDOL Trust Series 2014-1. During the year, one new trust was established, IDOL Trust Series 2015-1 on 14 October 2015. The Bank also holds notes issued by this Trust. All of these trusts are special purpose entities consolidated by the Bank.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 1 March 2016, the directors of the Group made a dividend payment in respect of the 2015 financial year. The total amount of the dividend payment was $300 million (2014: $275 million) to ING Bank N.V., the parent. This represents a fully-franked dividend of 22.5 cents per share (2014: 20.6 cents per share).

Other than the matter mentioned above, no subsequent events have occurred since the year ended 31 December 2015, or are pending, that would have a material effect on the financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the opinion of the Directors, disclosure of any further information about likely developments in the Group's operations in future financial years and the expected results of those operations has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Group under ASIC Class Order No. 98/100. The Group is an entity to which the Class Order applies.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Constitution of the Group requires it to indemnify all current and former officers of the Group against:

- any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person's favour or in which the person is acquitted or in connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- a liability incurred by the person, as an officer of the Group or a related body corporate, to another person (other than the Bank or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

During the reporting period, ING Groep N.V., on behalf of the Group paid an insurance premium in respect of a contract insuring each of the Directors of the Group named earlier in this report and each director, secretary and officer. The amount of the premium is confidential under the terms of the insurance contract. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the director, secretary or officer in their capacity as officers of the Group or a related body corporate.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor Ernst & Young as presented on the following page.

Signed in accordance with a resolution of the Directors.

Michael Katz Chairman Sydney 30 March 2016	Vaughn Richtor Director

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Auditor's Independence Declaration to the Directors of ING Bank (Australia) Limited

As lead auditor for the audit of ING Bank (Australia) Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of ING Bank (Australia) Limited and the entities it controlled during the financial year.

Ernst & Young

Andrew Harmer
Partner
Sydney
30 March 2016

Corporate Governance Statement

BOARD RESPONSIBILITIES

The Board of Directors of the Group is responsible for corporate governance.

Composition of the Board

The Board comprises six Non-Executive Directors (two of whom are representatives of ING Groep N.V.) and one Executive Director at the date of this report. The Chairman is a Non-Executive Director. The Board met 5 times this year.

Board Responsibilities

The Board acts on behalf of and is accountable to the shareholders. Board members have the experience and qualifications to discharge this duty as set out in the Directors' Report. The Board is subject to the prudential requirements of the Australian Prudential Regulation Authority ("APRA") and seeks to identify and ensure compliance with all regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to manage those risks. The Board also reviews the corporate governance policies and procedures of the Group at least once every year and has external experts assess it on best practice and developments in corporate governance, risk management and other issues of interest and concern to the Board.

To maintain Director independence and objectivity, a majority of Directors are not Executives of the Group. External Directors are appointed for an initial term of four years.

The responsibility for the operation and administration of the Group is delegated by the Board to the Chief Executive Officer, who is responsible for the Executive team being appropriately qualified and experienced to discharge their responsibilities. The Board has in place procedures to assess the performance of the Chief Executive Officer and reviews the Chief Executive Officer's performance and remuneration annually.

The Chief Executive Officer attends Board meetings and provides information, analysis and commentary to the Board. The Chief Executive Officer is entitled to one vote at Directors' meetings and participates at Board meetings in all matters other than where he has a conflict, for example, where his performance or remuneration is being reviewed.

ING Groep N.V. global succession planning procedures identify candidates to fill the position of Chief Executive Officer (if it becomes vacant) and provide other alternative candidates so there is continuity of leadership regardless of the circumstances.

The Board seeks to align management's objectives and activities with the expectations and risks identified by the Board.

The Board has a number of mechanisms in place to achieve this. In addition to the establishment of the Committees referred to below, the mechanisms include the following:

i. Board monitoring of performance against a strategic plan which encompasses the Group's vision, mission and strategy statements which are designed to meet shareholders' needs, regulatory requirements and manage business risks. The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to foster the growth and success of the Group;

ii. Development and implementation of operating plans and budgets by management and the Board monitoring progress against those plans and budgets;

iii. Remuneration incentives aligned with the Medium Term Plan of the Group; and

iv. Risk appetite framework designed to achieve portfolio outcomes consistent with the Group's risk and return expectations.

To assist in the fulfilment of its responsibilities the Board has instituted several Committees that operate under charters approved by the Board.

To ensure that all relevant issues are addressed between meetings of the Board and its Committees, there are also various Committees at a business unit level. These Committees are the Executive Committee, Pricing & Fee Committee, Local Credit Committee, Asset & Liability Management Committee, Non-Financial Risk Committee, Change Board, Marketing & Advertising Compliance Committee, Quarterly Business Review Committee and the Finance & Risk Committee. All business unit level Committees are run by appropriate Senior Executives of the Group.

Audit Committee

The Audit Committee, chaired by Mr Masters, assists the Board with regard to its responsibility for overseeing that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes which involve safeguarding of assets, the maintenance of proper accounting records as well as non-

Corporate Governance Statement

BOARD RESPONSIBILITIES (CONTINUED)

financial considerations such as the benchmarking of operational key performance indicators. The Audit Committee assists the Board in the establishment and maintenance of a framework of internal control and ethical standards for the management of the Group.

The Audit Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the annual report and is responsible for directing and monitoring the internal audit function and reviewing the adequacy of the scope of the external audit.

Furthermore, the Audit Committee monitors that management effectively deals with issues raised by both internal and external audit and that the external auditors are satisfactorily discharging their duties.

Risk Committee

The Risk Committee, chaired by Ms Sherry AO, is responsible for overseeing the Group's assessment and management of credit risk, market risk and operational risk including legal and compliance matters. The Risk Committee ensures a holistic approach to risk management within the Group. It ensures the Group maintains a risk management strategy and framework that is consistent with approved risk appetite and complexity of the Bank's business model. The Risk Committee formulates the Bank's risk appetite for the Board consideration and also makes recommendations on key policies relating to capital, liquidity and funding ensures effective and informed risk management reporting to the Board as necessary, and being available to meet with regulators (such as Australian Securities and Investment Commission ("ASIC") and Australian Prudential Regulation Authority ("APRA")) on behalf of the Group, when requested. This Committee generally meets on the same day as the meeting of the Board.

Remuneration & Nomination Committee

The Remuneration & Nomination Committee, chaired by Mr Katz, ensures that the Group's remuneration arrangements support its strategy and enables the recruitment, motivation and retention of Senior Executives. The Committee also ensures compliance with the local and ING Groep N.V. requirements of regulatory and governance bodies, satisfying the expectations of shareholders and remaining consistent with the expectations of the wider employee population.

All Committees perform additional functions as the Board of Directors may from time to time require. These other functions are required of the Committees by applicable legislation or by any relevant regulatory authority. The Committees seek expert advice when appropriate, including when material contentious items arise. With these Committees in place the Board can more effectively ensure the compliance, monitoring and review of all aspects of the Group's business.

Pillar 3 Disclosures

The Common Disclosures and Regulatory Capital reconciliation documents required under the 'Pillar 3 Disclosures', per prudential standard APS 330 "Public Disclosure" are provided in the Investor Relations section of the Bank's website at the following address: http://www.ingdirect.com.au/about-us/html.

Financial Statements

Statements of Comprehensive Income for the year ended 31 December 2015

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2015**	2014	**2015**	2014
Interest income		2,081,729	2,370,329	2,080,803	2,366,000
Interest expense		(1,445,294)	(1,732,017)	(1,442,531)	(1,724,166)
Net interest income		636,435	638,312	638,272	641,834
Net non-interest income		42,904	21,207	46,794	7,747
Total operating income	3	679,339	659,519	685,066	649,581
Employment expenses		(125,505)	(118,099)	(125,505)	(118,099)
Advertising expenses		(38,637)	(38,462)	(38,637)	(38,462)
Depreciation and amortisation expenses		(19,543)	(16,854)	(19,543)	(16,854)
Occupancy expenses		(14,105)	(14,540)	(14,105)	(14,540)
Technology expenses		(11,382)	(11,946)	(11,382)	(11,946)
Other expenses		(28,054)	(29,200)	(27,655)	(27,929)
Total operating expenses		(237,226)	(229,101)	(236,827)	(227,830)
Loan impairment benefit / (expense)	10	833	(4,627)	833	(4,627)
Operating profit before tax		442,946	425,791	449,072	417,124
Income tax expense	4	(128,284)	(128,777)	(127,894)	(126,177)
Profit for the year		314,662	297,014	321,178	290,947
Other Comprehensive Income					
Items that may be reclassified subsequently to the income statement					
Unrealised revaluations net of tax:					
Available for sale financial assets					
Gains / (losses) arising during the year	15	(19,015)	4,849	(19,015)	4,849
(Gains) / losses transferred to the income statement		(13,932)	(813)	(13,932)	(813)
Net gains / (losses) on available for sale financial assets		(32,947)	4,036	(32,947)	4,036
Cash flow hedges					
Gains / (losses) arising during the year		28,671	(23,914)	28,671	(23,914)
(Gains) / losses transferred to the income statement		(29,674)	(17,484)	(29,674)	(17,484)
Net gains / (losses) on cash flow hedges	9	(1,003)	(41,398)	(1,003)	(41,398)
Total amount recognised directly in equity		(33,950)	(37,362)	(33,950)	(37,362)
Total Comprehensive Income		280,712	259,652	287,228	253,585

Financial Statements
Balance Sheets as at 31 December 2015

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2015**	2014	**2015**	2014
ASSETS					
Cash and cash equivalents	6	708,606	808,287	490,514	495,421
Due from other financial institutions	7	351,190	368,338	432,869	431,151
Available for sale financial assets	8	4,853,425	7,346,518	4,853,425	7,346,518
Derivative assets	9	52,629	56,665	15,450	17,485
Receivables and other assets		155,425	218,543	173,984	216,344
Loans and advances	10	43,594,208	41,762,000	43,594,208	41,762,000
Deferred tax asset	4	63,179	64,534	63,179	64,534
Property, plant and equipment		90,600	46,758	90,600	46,758
Intangible assets		1,590	790	1,590	790
Total assets		49,870,852	50,672,433	49,715,819	50,381,001
LIABILITIES					
Deposits and other borrowings	11	42,013,285	41,772,205	42,215,698	41,888,954
Derivative liabilities	9	357,687	460,050	354,829	457,882
Creditors and other liabilities		314,685	393,737	309,255	385,817
Current tax liabilities		-	45,905	-	43,301
Provisions	12	318,325	291,979	318,325	291,979
Deferred tax liabilities	4	56,023	36,760	50,548	36,760
Debt issues	13	3,310,961	4,154,396	-	386,404
Amounts due to controlled entities		-	-	2,964,897	3,376,638
Total liabilities		46,370,966	47,155,032	46,213,552	46,867,735
Net assets		3,499,886	3,517,401	3,502,267	3,513,266
EQUITY					
Contributed equity	14	1,334,000	1,334,000	1,334,000	1,334,000
Reserves	15	66,737	98,194	66,737	98,194
Retained profits		2,099,149	2,085,207	2,101,530	2,081,072
Total equity		3,499,886	3,517,401	3,502,267	3,513,266

Financial Statements

Statements of Changes in Equity for the year ended 31 December 2015

Consolidated

31 December 2015							
amounts in thousands of dollars	Note	Issued capital	General reserve	Cash flow hedge reserve	Available for sale reserve	Retained earnings	Total equity
		14	15	15	15		
As at 1 January 2015		1,334,000	139,506	(65,362)	24,050	2,085,207	3,517,401
Profit for the year		-	-	-	-	314,662	314,662
Other comprehensive income		-	-	(1,003)	(32,947)	-	(33,950)
Total comprehensive income		-	-	(1,003)	(32,947)	314,662	280,712
Dividend provided for or paid	17	-	-	-	-	(300,000)	(300,000)
General reserve for credit losses		-	720	-	-	(720)	-
Share-based payment plan	19	-	1,773	-	-	-	1,773
As at 31 December 2015		1,334,000	141,999	(66,365)	(8,897)	2,099,149	3,499,886

31 December 2014							
amounts in thousands of dollars	Note	Issued capital	General reserve	Cash flow hedge reserve	Available for sale reserve	Retained earnings	Total equity
		14	15	15	15		
As at 1 January 2014		1,334,000	136,163	(23,964)	20,014	2,065,383	3,531,596
Profit for the year		-	-	-	-	297,014	297,014
Other comprehensive income		-	-	(41,398)	4,036	-	(37,362)
Total comprehensive income		-	-	(41,398)	4,036	297,014	259,652
Dividend provided for or paid	17	-	-	-	-	(275,000)	(275,000)
General reserve for credit losses		-	2,190	-	-	(2,190)	-
Share-based payment plan	19	-	1,153	-	-	-	1,153
As at 31 December 2014		1,334,000	139,506	(65,362)	24,050	2,085,207	3,517,401

Financial Statements

Statements of Changes in Equity for the year ended 31 December 2015

Bank

amounts in thousands of dollars	Note	Issued capital	General reserve	Cash flow hedge reserve	Available for sale reserve	Retained earnings	Total equity
		31 December 2015					
		14	15	15	15		
As at 1 January 2015		1,334,000	139,506	(65,362)	24,050	2,081,072	3,513,266
Profit for the year		-	-	-	-	321,178	321,178
Other comprehensive income		-	-	(1,003)	(32,947)	-	(33,950)
Total comprehensive income		-	-	(1,003)	(32,947)	321,178	287,228
Dividend provided for or paid	17	-	-	-	-	(300,000)	(300,000)
General reserve for credit losses		-	720	-	-	(720)	-
Share-based payment plan	19	-	1,773	-	-	-	1,773
As at 31 December 2015		1,334,000	141,999	(66,365)	(8,897)	2,101,530	3,502,267

amounts in thousands of dollars	Note	Issued capital	General reserve	Cash flow hedge reserve	Available for sale reserve	Retained earnings	Total equity
		31 December 2014					
		14	15	15	15		
As at 1 January 2014		1,334,000	136,163	(23,964)	20,014	2,067,315	3,533,528
Profit for the year		-	-	-	-	290,947	290,947
Other comprehensive income		-	-	(41,398)	4,036	-	(37,362)
Total comprehensive income		-	-	(41,398)	4,036	290,947	253,585
Dividend provided for or paid	17	-	-	-	-	(275,000)	(275,000)
General reserve for credit losses		-	2,190	-	-	(2,190)	-
Share-based payment plan	19	-	1,153	-	-	-	1,153
As at 31 December 2014		1,334,000	139,506	(65,362)	24,050	2,081,072	3,513,266

Financial Statements

Cash Flow Statements for the year ended 31 December 2015

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2015**	2014	**2015**	2014
Cash flows from operating activities					
Operating profit before tax		442,946	425,791	449,072	417,124
Adjustments for:					
Depreciation and amortisation expenses		19,543	16,854	19,543	16,854
Loan loss provisions		(833)	4,627	(833)	4,627
Other		(38,952)	(75,266)	(41,432)	(72,665)
Taxes paid		(145,451)	(99,178)	(145,451)	(99,178)
Changes in:					
Loans and advances		(1,831,375)	(778,781)	(1,831,375)	(778,781)
Derivatives		(98,327)	276,549	(101,017)	283,280
Receivables and other assets		63,119	(17,261)	42,360	(27,488)
Creditors and other liabilities		(79,052)	3,704	(76,562)	(3,267)
Deposits		687,299	994,784	772,963	1,089,694
Net cash flows from operating activities		(981,083)	751,823	(912,732)	830,200
Cash flows from investing activities					
Changes in:					
Available for sale financial assets		2,493,093	80,431	2,493,093	80,431
Property, plant and equipment		(64,185)	(26,110)	(64,185)	(26,110)
Net cash flows from investing activities		2,428,908	54,321	2,428,908	54,321
Cash flows from financing activities					
Changes in:					
Deposits payable to other financial institutions [2]		(446,219)	684,190	(446,219)	684,190
Debt issues		(843,435)	(1,375,656)	(386,404)	(1,296,282)
Amounts due to controlled entities		-	-	(411,741)	(128,962)
Dividend paid		(275,000)	-	(275,000)	-
Net cash flows from financing activities		(1,564,654)	(691,466)	(1,519,364)	(741,054)
Net cash flows		(116,829)	114,678	(3,188)	143,467
Cash and cash equivalents at beginning of year [1]		1,176,625	1,061,947	926,572	783,105
Cash and cash equivalents at end of year [1]	6 & 7	1,059,796	1,176,625	923,384	926,572

1 For the purposes of the Cash Flow Statement, cash and cash equivalents include 'cash and cash equivalents' at note 6 and 'due from other financial institutions' at note 7.

2 For the purposes of the Cash Flow Statement, deposits payable to other financial institutions exclude deposits from Self Managed Super Funds. This has been disclosed as deposits under net cash flows from operating activities, reflecting the underlying nature of these cashflows.

Notes to the Financial Statements

1. BASIS OF PREPARATION

1.1 Corporate information

ING Bank (Australia) Limited and its controlled entities ("the Group") is a for-profit company incorporated and domiciled in Australia. The registered office and principal place of business of the Group is Level 14, 140 Sussex Street, Sydney NSW 2000. The ultimate parent entity of the Group is ING Groep N.V.

The financial report for the year ended 31 December 2015 is comprised of the Bank and its controlled entities, IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1, IDOL Trust Series 2012-2, IDOL Trust Series 2013-1, IDOL Trust Series 2013-2, IDOL Trust Series 2014-1 and IDOL Trust Series 2015-1 (collectively referred to as "the Group"). The financial report was authorised for issue in accordance with a resolution of the Directors on 30th March 2016.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

1.2 Basis of accounting

This general purpose financial report has been prepared in accordance with Australian Accounting Standards ("AAS") and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements and notes thereto also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial report is presented in Australian Dollars which is also the functional currency. All values are rounded to the nearest $1,000, under the option available to the Group under ASIC Class Order No. 98/100, unless otherwise stated.

The financial report is prepared on a historical cost basis, except for available for sale financial assets and financial instruments which are measured at fair value.

2. SIGNIFICANT ESTIMATES AND JUDGEMENTS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management even though actual results may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described below:

Area	Significant estimates and judgements
Interest income and expense	Interest income and expenses are recognised using the effective interest rate method which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Fees associated with the origination of loans and advances or financial liabilities are capitalised and included as part of the amortised cost of the asset or liability and are expensed over the expected life of the loan under the effective interest rate method.
Impairment of loans and advances	*Specific provisions* are raised where there is objective evidence of impairment (where the Group does not expect to receive all of the cash flows contractually due). The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows discounted at the financial asset's original effective interest rate.

Notes to the Financial Statements

2. SIGNIFICANT ESTIMATES AND JUDGEMENTS (CONTINUED)

Impairment of loans and advances (continued)	*Collective Provisions* are provisions in respect of loans and advances that are not individually assessed for impairment and are therefore assessed collectively for impairment. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date. Considerable judgement is exercised in identifying and determining the extent of the loan loss provision (impairment) and is based on management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry and geographical concentration trends as well as the financial conditions of the counterparty and expected cash flows.
Impairment of available for sale financial assets	Available for sale assets are considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.
Impairment of intangibles	The intangible asset included on the Group's Balance Sheet has been deemed to have a finite useful life of 5 years. An impairment assessment is conducted by the Group at least annually as to whether indicators of impairment such as technical obsolescence exist.
Useful life of assets	The estimations of useful lives, residual value and amortisation methods require significant management judgement and are reviewed annually. Any change in depreciation or amortisation rates will change from date of re-assessment to the end of the revised useful life of the asset.
Financial instruments fair value	The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques are subjective in nature and involve various assumptions regarding pricing factors.
Taxation	Provisions for taxation require significant judgement with respect to outcomes that are uncertain. The Group has estimated its tax provisions based on expected outcomes. Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.
Employee benefits	Provisions for long service leave involve significant judgement about the likely outcome of various events and estimated future cash flows. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision. In determining the present value of the long service leave liability, employee termination rates, future salary levels and the market yield as at the reporting date on corporate bond rates which have terms to maturity approximating the terms of the related liability are used.
Share based payments	The fair value of share options and performance units is determined using a Monte Carlo simulation. This takes into account the risk free interest rate, expected life of the options granted, exercise price, current share price, expected volatility of the certificates of ING Groep N.V. and expected dividend yield.
Consolidation decisions	The Group exercises judgement to assess its control and whether a special purpose entity should be consolidated based on the Bank's power to direct the relevant activities of the entity, its exposure to variable returns and the ability to use its power to affect those returns.

Notes to the Financial Statements

3. OPERATING INCOME

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Interest income				
Cash and cash equivalents	14,624	19,344	11,189	15,015
Due from other financial institutions	7,623	7,376	7,623	7,376
Available for sale financial assets	189,509	247,597	189,509	247,597
Loans and advances	1,841,640	2,030,912	1,841,640	2,030,912
Gains on non-trading derivatives	28,333	65,100	30,842	65,100
Total interest income	2,081,729	2,370,329	2,080,803	2,366,000
Interest expense				
Deposits	1,210,403	1,387,796	1,215,639	1,391,634
Debt issues	113,554	195,908	4,438	51,721
Losses on non-trading derivatives	121,337	142,557	111,317	130,749
Amounts due to controlled entities	-	-	111,137	144,306
Other interest expense	-	5,756	-	5,756
Total interest expense	1,445,294	1,732,017	1,442,531	1,724,166
Net interest income	636,435	638,312	638,272	641,834
Non-interest income				
Account fees	24,977	11,544	24,977	8,562
Discharge fees and penalties	6,050	3,268	6,050	3,268
Gain from sale of available for sale financial assets	19,903	1,162	19,903	1,162
Loss from repurchase of debt securities	(666)	(2,568)	(666)	(2,568)
Gain from sale of loans	47,475	24,929	47,475	24,929
Fees and commissions	(31,371)	(6,825)	(29,671)	(6,825)
Net ineffectiveness on cash flow hedges	(168)	234	(168)	234
Net ineffectiveness on fair value hedges	(107)	4,413	(107)	4,413
Other	(23,189)	(14,950)	(20,999)	(25,428)
Net non-interest income	42,904	21,207	46,794	7,747
Total operating income	679,339	659,519	685,066	649,581

Income recognition – Accounting policy

Interest income on loans and advances is brought to account using the effective interest rate method.

Fees earned from the origination of loans are recognised in interest income using the effective interest rate method.

Interest expense on financial liabilities measured at amortised cost is recognised in the Income Statement using the effective interest rate method. Interest expense includes issue costs that are initially recognised as part of the carrying value of the liability and amortised over the expected life. These include fees and commissions payable and other expenses that are direct and incremental costs related to the issue of a financial liability.

Fees and commissions that relate to the execution of a significant act are recognised in non-interest income when the significant act has been completed. Fees charged for providing ongoing services are recognised in non-interest income over the period the service is provided.

Notes to the Financial Statements

4. INCOME TAX EXPENSE

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Income Statement				
Current income tax	93,116	122,221	98,202	119,621
Deferred income tax	35,168	6,556	29,692	6,556
Income tax expense reported in Income Statement	128,284	128,777	127,894	126,177
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	(430)	(17,743)	(430)	(17,743)
Revaluation of available for sale financial assets	(14,120)	1,730	(14,120)	1,730
Income tax expense recognised in other comprehensive income	(14,550)	(16,013)	(14,550)	(16,013)
Reconciliation of prima facie income tax expense on accounting profit before income tax expense:				
Operating profit before tax	442,946	425,791	449,072	417,124
Prima facie income tax on operating profit at 30% (2014: 30%)	132,884	127,737	134,722	125,137
Income Tax over/(under) provided in prior years	(974)	1,576	(974)	1,576
Effects of amounts which are not (assessable)/deductible	(3,626)	(536)	(5,854)	(536)
Income tax expense reported in Income Statement	128,284	128,777	127,894	126,177

Income tax – Accounting policy

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss in the Income Statement except to the extent that it relates to items recognised directly in equity, or other comprehensive income.

Current income tax is the tax payable or receivable on the taxable income or loss for the year based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax assets and liabilities are recognised based on temporary differences between the tax base and the accounting carrying amount of an asset or liability in the Balance Sheet. They are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised based on future taxable amounts.

Effective tax rate for 2015 is 28.96% (2014: 30.24%).

Tax consolidation

ING Bank (Australia) Limited and other wholly owned subsidiaries of ING Groep N.V. in Australia formed a tax consolidated group from 1 January 2004 and are taxed as a single entity from that date. The tax consolidated group does not include the Trusts. Members of the tax consolidated group have entered into a tax sharing deed in order to allocate income tax payable to group members. This allocation is calculated on a stand-alone taxpayer approach. The amounts receivable or payable under the tax sharing deed are due upon receipt of the funding advice from the Head Entity, which is issued as soon as practicable after the end of each financial year. The Head Entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The Head Entity of the tax consolidated group is ING Australia Holdings Limited and other eligible members include ING REDA Holdings Pty Limited, ING Real Estate Investment Management Australia Pty Limited and Jaring Pty Limited.

Notes to the Financial Statements

4. INCOME TAX EXPENSE (CONTINUED)

	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
amounts in thousands of dollars	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	34,256	27,717	6,538	3,938	34,256	27,717	6,538	3,938
Revaluation of financial instruments	-	-	-	(455)	-	-	-	(455)
Revaluation of available for sale financial assets	-	3,114	-	(553)	-	3,114	-	(553)
Revaluation of fair value hedge	-	-	-	(1,071)	-	-	-	(1,071)
Accelerated depreciation for tax purposes	14,884	4,375	10,510	956	14,884	4,375	10,510	956
Revaluation of derivatives	4,161	-	-	-	-	-	-	
Other	2,722	1,554	5,329	(19)	1,408	1,554	(147)	(19)
Total deferred tax liabilities	56,023	36,760			50,548	36,760		
Deferred tax assets								
Depreciation and amortisation expenses	2,848	3,740	892	(462)	2,848	3,740	892	(462)
Provisions for impairment	8,266	12,142	3,877	327	8,266	12,142	3,877	327
Deferred lending income	95	58	(37)	1,646	95	58	(37)	1,646
Revaluation of available for sale financial assets	11,006	-	-	282	11,006	-	-	282
Revaluation of cash flow hedge	28,426	27,946	(50)	71	28,426	27,946	(50)	71
Accrued expenses	4,932	11,749	6,817	2,985	4,932	11,749	6,817	2,985
Provisions	5,497	5,094	(403)	(1,487)	5,497	5,094	(403)	(1,487)
Deferred borrowing costs	1,066	1,433	368	333	1,066	1,433	368	333
Other	1,043	2,372	1,327	65	1,043	2,372	1,327	65
Total deferred tax assets before set- off	63,179	64,534			63,179	64,534		
Net deferred tax assets	7,156	27,774			12,631	27,774		
Deferred income tax charge			35,168	6,556			29,692	6,556

Notes to the Financial Statements

5. SEGMENT REPORTING

The Group has four operating segments being *Mortgages, Savings, Commercial Loans and Superannuation.* The Group determines and presents operating segments based on the information that is provided internally to the Executive Committee, being the Bank's chief operating decision makers. The information allows the assessment of performance and determination of the allocation of resources. In the current period, management has revised its operating segments to better align with the information provided to the Bank's Executive Committee. Comparative information has therefore been restated.

Consolidated

Year ended 31 December 2015

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Superannuation	**Total**
Operating income	375,607	226,465	80,743	(3,476)	679,339
Loan loss provisioning	(3,401)	-	4,234	-	833
Allocated expenses	(92,348)	(120,014)	(11,781)	(13,083)	(237,226)
Net segment earnings	279,858	106,451	73,196	(16,559)	442,946
Income tax expense					(128,284)
Profit for the year	279,858	106,451	73,196	(16,559)	314,662
Reportable segment assets and liabilities					
Loans and Advances	38,645,272	-	4,948,936	-	43,594,208
Deposits and other borrowings [1]	-	33,286,325	-	912,469	34,198,794

Year ended 31 December 2014

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Superannuation	**Total**
Operating income	338,768	250,097	72,095	(1,441)	659,519
Loan loss provisioning	(24)	-	(4,603)	-	(4,627)
Allocated expenses	(93,683)	(112,282)	(9,644)	(13,492)	(229,101)
Net segment earnings	245,061	137,815	57,848	(14,933)	425,791
Income tax expense					(128,777)
Profit for the year	245,061	137,815	57,848	(14,933)	297,014
Reportable segment assets and liabilities					
Loans and Advances	37,795,169	-	3,966,831	-	41,762,000
Deposits and other borrowings [1]	-	32,850,719	-	674,652	33,525,371

[1] Term deposits exclude pass through funding from ING Bank N.V. (Sydney Branch) of $7.8b (2014: $8.2b) in addition to pass through funding of $0.1b of deposits at call.

Notes to the Financial Statements

6. CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Cash and liquid assets	358,952	381,172	353,767	375,401
Cash equivalents held by other financial institutions	349,654	427,115	136,747	120,020
Total cash and cash equivalents	708,606	808,287	490,514	495,421

Cash and cash equivalents – Accounting policy

Comprises cash on hand, in banks and at-call loans excluding cash collateral. These are readily convertible to known amounts of cash which are subject to insignificant risk of changes in value and are initially measured at fair value and subsequently measured at amortised cost which is an approximation of fair value as they are short term in nature.

7. DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Cash collateral	351,190	368,338	432,869	425,401
Deposits placed with other financial institutions	-	-	-	5,750
Total due from other financial institutions	351,190	368,338	432,869	431,151

Due from other financial institutions – Accounting policy

Includes cash collateral pledged to counterparties on derivative instruments and are initially measured at fair value and subsequently measured at amortised cost which is an approximation of fair value as they are short term in nature.

8. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Floating rate notes	-	891,974	-	891,974
Treasury notes	-	235,574	-	235,574
Discount securities	99,983	960,482	99,983	960,482
Corporate bonds	655,623	-	655,623	-
Covered bonds	433,138	178,857	433,138	178,857
Government bonds	3,661,282	5,050,826	3,661,282	5,050,826
Mortgage-backed securities	3,399	28,805	3,399	28,805
Total available for sale financial assets	4,853,425	7,346,518	4,853,425	7,346,518
Maturity analysis of available for sale financial assets				
Not longer than 3 months	168,841	605,104	168,841	605,104
Longer than 3 months and not longer than 1 year	1,284,154	1,910,878	1,284,154	1,910,878
Longer than 1 year and not longer than 5 years	1,887,034	3,190,251	1,887,034	3,190,251
Longer than 5 years	1,513,396	1,640,285	1,513,396	1,640,285
Total available for sale financial assets	4,853,425	7,346,518	4,853,425	7,346,518

Notes to the Financial Statements

8. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

Available for sale financial assets – Accounting policy

Available for sale financial assets are non-derivative financial assets that are not designated as fair value through the profit and loss, held to maturity or loans and advances. Available for sale assets primarily comprise debt securities and are initially recognised at fair value plus transaction costs and are subsequently measured at fair value with gains and losses recognised in the available for sale reserve within equity until disposal or impairment where the gains or losses are transferred to the Income Statement.

Financial assets – Accounting policy

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Income Statement.

All purchases and sale of financial assets classified as available for sale that require delivery within the time frame established by the regulation or market convention are recognised at trade date.

9. DERIVATIVES

Consolidated		**2015**			**2014**	
amounts in thousands of dollars	**Notional**	**Fair value asset**	**Fair value liability**	Notional	Fair value asset	Fair value liability
Derivatives designated as fair value hedges						
Interest rate swaps	2,842,000	1,366	(246,820)	4,441,000	1,448	(345,983)
Total fair value hedges	2,842,000	1,366	(246,820)	4,441,000	1,448	(345,983)
Derivatives designated as cash flow hedges						
Interest rate swaps	16,500,900	11,555	(106,363)	14,285,000	14,486	(107,639)
Total cash flow hedges	16,500,900	11,555	(106,363)	14,285,000	14,486	(107,639)
Other derivatives						
Cross currency swap	112,233	33,680	-	126,792	34,053	-
Basis swaps	1,252,377	265	(265)	2,349,784	256	(256)
Interest rate swaps	1,457,628	5,763	(4,239)	1,104,541	6,422	(6,172)
Total other derivatives	2,822,238	39,708	(4,504)	3,581,117	40,731	(6,428)
Total recognised derivative assets/(liabilities)	22,165,138	52,629	(357,687)	22,307,117	56,665	(460,050)

Notes to the Financial Statements

9. DERIVATIVES (CONTINUED)

Bank	2015			2014		
amounts in thousands of dollars	**Notional**	**Fair value asset**	**Fair value liability**	Notional	Fair value asset	Fair value liability
Derivatives designated as fair value hedges						
Interest rate swaps	2,842,000	1,366	(246,820)	4,441,000	1,448	(345,983)
Total fair value hedges	2,842,000	1,366	(246,820)	4,441,000	1,448	(345,983)
Derivatives designated as cash flow hedges						
Interest rate swaps	16,500,900	11,555	(106,363)	14,285,000	14,486	(107,639)
Total cash flow hedges	16,500,900	11,555	(106,363)	14,285,000	14,486	(107,639)
Other derivatives						
Cross currency swaps	-	-	-	-	-	-
Basis swaps	626,189	265	-	1,174,892	256	-
Interest rate swaps	678,814	2,264	(1,646)	502,271	1,295	(4,260)
Total other derivatives	1,305,003	2,529	(1,646)	1,677,163	1,551	(4,260)
Total recognised derivative assets/(liabilities)	20,647,903	15,450	(354,829)	20,403,163	17,485	(457,882)

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Maturity analysis for derivative assets				
Not longer than 3 months	474	1,713	455	1,713
Longer than 3 months and not longer than 1 year	1,722	2,589	3	2,589
Longer than 1 year and not longer than 5 years	47,573	50,905	12,132	11,725
Longer than 5 years	2,860	1,458	2,860	1,458
No maturity specified	-	-	-	-
Total derivative assets	52,629	56,665	15,450	17,485

Derivatives – Accounting policy

The Group uses derivative financial instruments such as interest rate swaps, cross currency swaps and basis swaps as part of its risk management activities to manage exposures to interest rate and foreign currency risks.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value at the end of each reporting period. Fair values are obtained from valuation techniques utilising discounted cash flow models where inputs are observable in active markets. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Notes to the Financial Statements

9. DERIVATIVES (CONTINUED)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group designates certain interest rate swaps as hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable cash flows attributable to a recognised asset or liability (cash flow hedges). Hedge accounting is used for derivatives designated in this way provided the criteria prescribed by *AASB 139 - Financial Instruments: Recognition and Measurement* are met.

Other derivatives are cross currency, interest rate and basis swaps that the Group entered into economically to hedge RMBS Notes issued and are not designated for hedge accounting purposes. Changes in fair value are recorded in the Income Statement.

Hedging – Accounting policy

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

The Group enters into derivative transactions which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecast transactions.

Derivatives designated and accounted for as hedging instruments

Cash flow hedges

For a derivative designated as hedging a highly probable cash flow exposure arising from a recognised asset or liability, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in comprehensive income in the cash flow hedge reserve and reclassified into the Income Statement when the hedged item is brought to account. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Income Statement. More specifically, a cash flow hedge is accounted for as follows:

the separate component of equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):

(i) the cumulative gain or loss on the hedging instrument from inception of the hedge; and

(ii) the cumulative change in fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge.

The Group uses interest rate swaps to minimise the variability in cash flows of interest earning assets and interest-bearing liabilities.

Cashflow Hedges	**Consolidated**		**Bank**	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Fair value of hedge instruments	(94,808)	(93,152)	(94,808)	(93,152)
Amount recognised in other comprehensive income during the period (net of tax)	(1,003)	(41,398)	(1,003)	(41,398)

Notes to the Financial Statements

9. DERIVATIVES (CONTINUED)

Fair value hedges

For a derivative designated as hedging a fair value exposure arising from a recognised asset or liability, the gain or loss on the derivative is recognised in the Income Statement together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The Group's fair value hedges consist of interest rate swaps. Fair value hedges are used to limit the Group's exposure to changes in the fair value of its fixed rate interest earning assets and interest bearing liabilities that are due to interest rate volatility.

Fair value hedges	**Consolidated**		**Bank**	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Fair value of hedge instruments	(245,455)	(344,536)	(245,455)	(344,536)
Current year gains / (losses) on hedging instruments	96,043	(183,234)	96,043	(183,234)
Fair value of hedged items	3,071,219	4,133,293	3,071,219	4,133,293
Current year gains / (losses) on hedged items attributable to the hedged risk	(96,150)	187,647	(96,150)	187,647
Hedge ineffectiveness	(107)	4,413	(107)	4,413

Offsetting

The Group presents the fair value of its derivative assets and derivative liabilities on a gross basis. However, certain derivative assets and liabilities are subject to legally enforceable master netting arrangements.

Consolidated	**Effects of offsetting on the balance sheet**			**Related amounts not offset**		
amounts in thousands of dollars	Gross amount	Gross amount set-off in the balance sheet	**Net amount presented in the balance sheet**	Amount subject to master netting arrangements	Financial instrument collateral	**Net Amount**
2015						
Financial assets						
Derivative financial instruments	52,629	-	52,629	(49,155)	(4,900)	(1,426)
Total	52,629	-	52,629	(49,155)	(4,900)	(1,426)
Financial liabilities						
Derivative financial instruments	(357,687)	-	(357,687)	49,155	351,190	42,658
Total	(357,687)	-	(357,687)	49,155	351,190	42,658
2014						
Financial assets						
Derivative financial instruments	56,665	-	56,665	(22,612)	-	34,053
Total	56,665	-	56,665	(22,612)	-	34,053
Financial liabilities						
Derivative financial instruments	(460,050)	-	(460,050)	22,612	368,338	(69,100)
Total	(460,050)	-	(460,050)	22,612	368,338	(69,100)

Notes to the Financial Statements

9. DERIVATIVES (CONTINUED)

Bank	Effects of offsetting on the balance sheet			Related amounts not offset		
amounts in thousands of dollars	Gross amount	Gross amount set-off in the balance sheet	Net amount presented in the balance sheet	Amount subject to master netting arrangements	Financial instrument collateral	Net Amount
2015						
Financial assets						
Derivative financial instruments	15,450	-	15,450	(13,714)	(4,900)	(3,164)
Total	15,450	-	15,450	(13,714)	(4,900)	(3,164)
Financial liabilities						
Derivative financial instruments	(354,829)	-	(354,829)	13,714	351,190	10,075
Total	(354,829)	-	(354,829)	13,714	351,190	10,075
2014						
Financial assets						
Derivative financial instruments	17,485	-	17,485	(17,485)	-	-
Total	17,485	-	17,485	(17,485)	-	-
Financial liabilities						
Derivative financial instruments	(457,882)	-	(457,882)	17,485	368,338	(72,059)
Total	(457,882)	-	(457,882)	17,485	368,338	(72,059)

10. LOANS AND ADVANCES

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Retail loans	38,654,950	37,806,554	38,654,950	37,806,554
Commercial loans	4,810,031	3,900,856	4,810,031	3,900,856
Other loans	156,779	95,065	156,779	95,065
Gross loans and advances	43,621,760	41,802,475	43,621,760	41,802,475
Specific provision for impairment	(20,047)	(31,239)	(20,047)	(31,239)
Collective provision for impairment	(7,505)	(9,236)	(7,505)	(9,236)
Total loans and advances	43,594,208	41,762,000	43,594,208	41,762,000
Maturity analysis of loans and advances				
Not longer than 3 months	183,862	166,756	183,862	166,756
Longer than 3 months and not longer than 1 year	407,628	288,750	407,628	288,750
Longer than 1 year and not longer than 5 years	2,835,731	2,498,226	2,835,731	2,498,226
Longer than 5 years	39,448,032	37,828,152	39,448,032	37,828,152
No maturity specified	746,507	1,020,591	746,507	1,020,591
Gross loans and advances	43,621,760	41,802,475	43,621,760	41,802,475

Loans and Advances - Accounting policy

Subsequent to initial recognition, loans and advances are measured at amortised cost using the effective interest method. Loans and advances are presented net of provisions for impairment. Loans and advances are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They include secured loans made to retail and commercial borrowers, inter-bank loans and leveraged leases.

Notes to the Financial Statements

10. LOANS AND ADVANCES (CONTINUED)

Provision for impairment	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Specific provisions				
Opening balance	31,239	27,688	31,239	27,688
Net movement in provision	898	9,268	898	9,268
Sub-total	32,137	36,956	32,137	36,956
Bad debts written off	(12,090)	(5,717)	(12,090)	(5,717)
Closing balance – specific provisions	20,047	31,239	20,047	31,239
Collective provisions				
Opening balance	9,236	13,877	9,236	13,877
Net movement in provision	(1,731)	(4,641)	(1,731)	(4,641)
Closing balance – collective provisions	7,505	9,236	7,505	9,236
Total provision for impairment	27,552	40,475	27,552	40,475

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Income Statement				
Specific provision	898	9,268	898	9,268
Collective provision	(1,731)	(4,641)	(1,731)	(4,641)
Total loans loss (benefit) / expense	(833)	4,627	(833)	4,627

For the year ended 31 December 2015 the Group recognised $0.8 million in loan loss provisions benefit (2014: $4.6 million in loan loss provisions expense).

The loan loss provision benefit for the year is primarily attributable to an $4.4 million benefit in the individual specific provision on the commercial portfolio, offset by a $4.2 million expense on the retail portfolio. In addition, there was a release of $1.7 million in collective provisions on the overall portfolio ($1.1 million retail; $0.6 million commercial).

Impairment - Accounting policy

Individually assessed provisions are made against financial assets that have been individually assessed as impaired. The impairment is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement. Provisions for individually significant assets are calculated based on discounted cash flows.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a 'loss confirmation period' to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point-in-time at which those events are captured by the Group's credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in the Group's provision for impairment.

When a loan is uncollectible, it is written off against the related provision for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off go to the Income Statement.

Notes to the Financial Statements

11. DEPOSITS AND OTHER BORROWINGS

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Deposits				
Deposits at call	22,031,983	19,020,805	22,234,396	19,137,554
Term deposits[1]	19,453,408	22,032,178	19,453,408	22,032,178
Certificates of deposits	237,713	413,967	237,713	413,967
Securities sold under agreement to repurchase	290,181	305,255	290,181	305,255
Deposits and other borrowings	42,013,285	41,772,205	42,215,698	41,888,954
Concentration of deposits				
Retail Deposits	31,929,391	30,174,084	31,929,391	30,174,084
Middle market deposits	494,543	1,579,811	494,543	1,579,811
Wholesale deposits	9,589,351	10,018,310	9,791,764	10,135,059
Total deposits	42,013,285	41,772,205	42,215,698	41,888,954

[1] Term deposits include pass through funding from ING Bank N.V. (Sydney Branch) of $7.8b (2014: $8.2b) with the remainder of pass through funding of $0.1b in deposits at call.

Deposits and other borrowings – Accounting policy

Deposits and other borrowings include term deposits, at-call deposits, negotiable certificates of deposits and pass through funding from ING Bank N.V. (Sydney Branch). They are recognised initially at the fair value and are subsequently measured at amortised cost, using the effective interest rate method.

12. PROVISIONS

Provisions	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Annual leave	6,087	5,929	6,087	5,929
Long service leave	6,982	7,270	6,982	7,270
Other provisions	5,256	3,780	5,256	3,780
Provision for dividend	300,000	275,000	300,000	275,000
Total provisions	318,325	291,979	318,325	291,979
Provisions expected to be paid in the next 12 months	307,665	281,622	307,665	281,622

Movement in provisions	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Carrying amount at beginning of the year	291,979	12,024	291,979	14,654
Additional provision recognised	311,271	287,516	311,271	284,886
Amounts utilised during the year	(284,925)	(7,561)	(284,925)	(7,561)
Carrying amount at end of year	318,325	291,979	318,325	291,979

Notes to the Financial Statements

12. PROVISIONS (CONTINUED)

Provisions – Accounting policy

A provision is recognised on the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and is reliably measured. Provisions are measured by discounting the expected future pre-tax cash flows reflecting time value of money and risks specific to the obligation.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

In respect of long service leave, the Group's policy is to recognise a liability once an employee attains five years of service or more. Employee benefits are discounted where the difference between the carrying value and the present value is material.

13. DEBT ISSUES

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	**2014**
Floating rate notes	-	9,805	-	9,805
Corporate bonds	-	376,599	-	376,599
Mortgage-backed securities	3,310,961	3,767,992	-	-
Total debt issues	3,310,961	4,154,396	-	386,404

Debt issues – Accounting policy

Debt issues are short and long term debt issues of the Group and medium term notes, amongst others. They are initially recognised at fair value, net of transaction costs incurred. Debt issues are subsequently measured at amortised cost using the effective interest rate method.

14. CONTRIBUTED EQUITY

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Issued and fully paid equity				
Ordinary voting shares	1,284,000	1,284,000	1,284,000	1,284,000
Ordinary non-voting shares	50,000	50,000	50,000	50,000
Total contributed equity	1,334,000	1,334,000	1,334,000	1,334,000

Consolidated and Bank	**2015**	2014	**2015**	2014
Issued capital	# of Shares	# of Shares	# of Shares	# of Shares
Balance at beginning of financial year	1,334,000,004	1,334,000,004	1,334,000,004	1,334,000,004
Issue of shares	-	-	-	-
Balance at end of financial year	1,334,000,004	1,334,000,004	1,334,000,004	1,334,000,004

Contributed equity – Accounting policy

Issued and paid-up capital represents the consideration received by the Group. Incremental costs directly attributable to the issue of ordinary shares are recognised as a reduction from equity, net of tax.

Notes to the Financial Statements

15. RESERVES

2015 Consolidated and Bank

amounts in thousands of dollars	General reserve for credit losses	Share based payments reserve	Cash flow Hedge Reserve	Available for Sale Reserve	Total
Opening balance	129,796	9,710	(65,362)	24,050	98,194
Revaluation movement for the year, net of tax	-	1,773	28,671	(19,015)	11,429
Transferred to Income Statement - net interest income	-	-	(42,392)	-	(42,392)
Transfer of gains on sale to net non-interest income	-	-	-	(19,903)	(19,903)
Tax on amounts transferred to Income Statement	-	-	12,718	5,971	18,689
Transfer (to)/from retained earnings	720	-	-	-	720
Closing balance	130,516	11,483	(66,365)	(8,897)	66,737

2014 Consolidated and Bank

amounts in thousands of dollars	General reserve for credit losses	Share based payments reserve	Cash flow Hedge Reserve	Available for Sale Reserve	Total
Opening balance	127,606	8,557	(23,964)	20,014	132,213
Revaluation movement for the year, net of tax	-	1,153	(23,914)	4,849	(17,912)
Transferred to Income Statement - net interest income	-	-	(24,977)	-	(24,977)
Transfer of gains on sale to net non-interest income	-	-	-	(1,162)	(1,162)
Tax on amounts transferred to Income Statement	-	-	7,493	349	7,842
Transfer (to)/from retained earnings	2,190	-	-	-	2,190
Closing balance	129,796	9,710	(65,362)	24,050	98,194

Reserves – Accounting policy

Available for sale reserve

Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the Income Statement.

Cash flow hedge reserve

The cash flow hedge reserve records the fair value revaluation of derivatives designated as cash flow hedging instruments.

For a derivative designated as hedging a cash flow exposure arising from a recognised asset or liability, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity in the cash flow hedge reserve and reclassified into the Income Statement when the associated hedged transaction affects profit or loss.

General reserve

The general reserve for credit losses ("GRCL") is an amount appropriated from retained earnings and represents an allocation of capital to cover potential credit losses which are not yet identified. The methodology for calculating the GRCL is based on converting the 12 month probability of default to a lifetime probability of default. This is determined through the implementation of whole of life parameters in the residential mortgage and commercial loans probability of default models.

Share based payments reserve

The share based payments reserve records attribution to equity from the employee share-based payment plan. The fair value of share-based payment transactions is expensed over the vesting period. The charge to the Income Statement is the fair value of the equity-settled transactions less the amounts already charged in previous periods. The fair value is recognised as an employee expense with a corresponding increase in equity.

Notes to the Financial Statements

16. RISK MANAGEMENT

This note explains the nature and extent of risks arising from financial instruments and how these risks could affect the Group's future financial performance. The Group's major risk categories are detailed below.

Risk	Exposure arising from	Measurement	Governance
Credit Risk	• Cash and cash equivalents • Loans and advances • Derivative financial instruments • Available for sale financial assets	• Aging analysis • Credit ratings	• Retail Credit Risk Sub-Policy • Non Retail Credit Risk Sub-Policy • Large Exposures Sub-Policy • Enterprise Wide Stress Testing Framework Sub-Policy • Risk Appetite Statement • Risk Management Strategy Document
Market Risk – Interest Rate Risk	• Loans and advances • Deposits • Available for sale financial assets • Debt issues	• Economic Value Sensitivity ("EVS") • Earnings at Risk ("EaR") • IRRBB stress testing	• Asset & Liability Management Sub-Policy • Enterprise Wide Stress Testing • Risk Appetite Statement • Risk Management Strategy Document
Market Risk – Foreign Exchange	• Financial assets and liabilities not denominated in Australian dollars	• Sensitivity analysis	• Asset & Liability Management Sub-Policy • Risk management Strategy Document
Liquidity and funding risk	• Deposits and other borrowings • Debt issues	• Scenario analysis and stress testing • Liquidity Coverage Ratio ("LCR") • Additional liquidity triggers and risk limits	• Asset & Liability Management Sub-Policy • Risk Appetite Statement • Treasury – Securitisation Sub-Policy • Risk management Strategy Document
Non-Financial Risk	• Inadequate or failed internal processes, people and sysyems • Failure or perceived failure to comply with relevant laws, regulations, IBAL policies	• Risk and Control self Assessment • Non Financial Risk Score • Incident reporting	• Operational Risk Management Framework Sub-Policy • Financial Crimes Sub-Policy • Compliance Framework and Chart Sub-Policy • Conflicts of Interest Sub-Policy • Gift Entertainment & Anti Bribery Sub-Policy • AMCL/CFT Compliance Progam Sub-Policy • Risk Appetite Statement • Risk Management Strategy Document

Risk management framework

Taking risk is inherent in the Group's business activities. To ensure prudent risk-taking across the organisation, the Group operates through a comprehensive risk management framework to ensure risks are identified, well understood, accurately measured, controlled and proactively managed at all levels of the organisation ensuring that the Group's financial strength is safeguarded. The Group's risk management framework incorporates the requirements of APRA's prudential standard CPS 220 *Risk Management*.

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Risk management framework (continued)

The key objective of IBAL's risk management framework are:

- To ensure that the risk management objectives are linked to IBAL's business strategy, Orange Code, Customer Golden Rules and operations;
- To ensure that all key risks are identified and appropriately managed by the risk owner;
- To ensure that systems, processes and tools are established to monitor, manage and report on the key risks;
- To ensure the risk management framework is operating effectively and the business is able to use the framework, system and tools appropriately;
- To ensure that the documentation for the risk management framework and supporting policies, procedures, tools and systems are kept accurate and current;
- To ensure compliance with all relevant legal and regulatory obligations.

The Group believes this ensures the proper identification, measurement and control of risks in all levels of the organisation so that financial strength is safeguarded.

Risk governance framework

The Group's risk governance framework contains clear charters and mandates for the management of risk. Risk management in the Group is effected through a governance structure involving a series of local, Board and Head Office committees. The governance structure is independent of the day to day management of the Group's business activities.

Ultimate control over the strategy and risk appetite statement and policy settings of the Group rests with the Board. The Risk Management strategy requires risk management to be fully embedded into the Group's business processes. As a subsidiary of ING Groep N.V., the Group is also subject to the governance and control of the parent company. The Board utilises three committees to discharge its responsibilities:

- *Risk Committee* – the Board Risk Committee ("BRC") oversees credit, market, liquidity and funding, operational, compliance (including regulatory) and reputational risks assumed by the Group in the course of carrying on its business. A key purpose of the BRC is to help formulate the Group's risk appetite for consideration and approval by the Board.

- *Audit Committee* – the Audit Committee assists the Board with regard to its responsibility for overseeing that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, which involve safeguarding of assets, the maintenance of proper accounting records as well as non-financial considerations such as the benchmarking of operational key performance indicators.

- *Remuneration and Nomination Committee* – the Remuneration and Nomination Committee is responsible for reviewing and making recommendations to the Board in respect of recruitment, retention, all equity-based remuneration, termination and compensation arrangements for Non-Executive Directors, CEO and all Senior Executives.

Risk management organisation

The Group regards risk as a fundamental activity, performed at all levels of the organisation. Accountability for the risk management framework is based on the "three lines of defence" model, whereby ownership for risk is taken at three levels in the organisation. The governance framework reflects our belief that "risk is everyone's business" and all employees are responsible for identifying and managing risk and operating within the approved risk appetite. The "three lines of defence" model is summarised as follows:

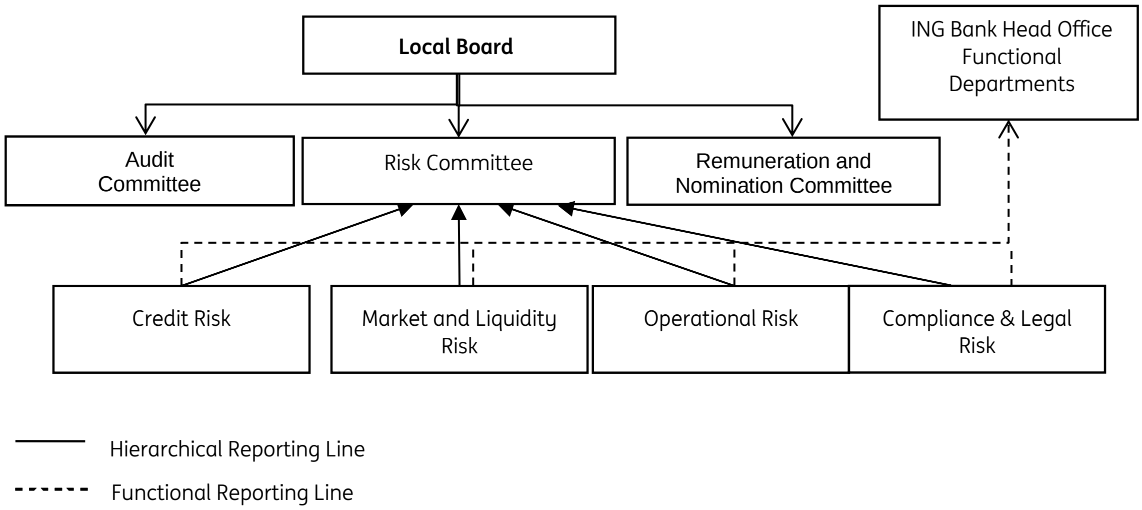
- Line 1 – Business Lines (including management control activities) is primarily responsible for risk identification and management.
- Line 2 - Risk Management providing independent risk management expertise and oversight for business departments' risk-taking activities.
- Line 3 – Corporate Audit Services provides independent assurance regarding the adequacy and effectiveness of the Group's system of internal controls, risk management procedures and governance processes.

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Risk management function

The Risk management function within the Group, as the second line of defence, is responsible for the measurement, monitoring and control of risk. The management chart below illustrates the functional reporting lines within the Group's risk organisation.



Local risk committees

The local risk committees described below act within the overall risk policy and delegated authorities granted by the Board. The committees have a governing role and ensure a close link between the business lines and the Risk management functions through joint representation on each committee:

- Asset and Liability Management Committee ("ALCO") – defines the policies regarding funding, liquidity, interest rate mismatch and solvency of the Group. ALCO provides governance to ensure that the Group's risk profile complies with the Group's overall risk appetite and risk policy framework. Some activities include, setting limits for and monitoring solvency of the balance sheet, deciding on local transfer price methods, monitoring developments in balance sheet under its scope and at a minimum, meets on a monthly basis;
- Local Credit Committee ("LCC") – oversees the credit risk management framework, key policies, Group's credit profile and performance against credit risk appetite and metrics, and identifies emerging credit risks and appropriate actions to address these. The LCC reviews and monitors the on-going level of credit risk capital and the specific and collective loan loss provisioning for the Group. At a minimum, the LCC meets on a monthly basis;
- Non-Financial Risk Committee ("NFRC") – the overall responsibility of the NFRC is to identify, measure and monitor the Non-Financial Risk ("NFR") profile of the Group (operational, compliance and legal risks) with appropriate quality of coverage and ensure they are managed in accordance with the Risk Management Framework and Risk Appetite. The NFRC acts as an escalation point for issues which impact the Group's NFR profile and ensures that the appropriate management action is taken. The NFRC meets at a minimum, on a monthly basis and
- The Finance and Risk Committee ("F&RC") is a platform for the Chief Risk Officer ("CRO") and the Chief Financial Officer ("CFO"), to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of this Committee is to co-ordinate the finance and risk decisions that have an impact on internal and/or external reporting.

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

(a) CREDIT RISK

Credit risk arises from the Group's lending activities, pre-settlement and investment activities. Credit risk is the potential loss arising from the possibility that customers or counterparties fail to meet contractual obligations as and when they fall due.

Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

The Group's credit exposure mainly relates to traditional secured lending to individuals (retail banking) and businesses (commercial lending) followed by investment in short and long term wholesale loans and securities. Loans to individuals are mainly mortgage loans secured by residential property. Loans to businesses are Priority Commercial Mortgages, Commercial Property Finance, Real Estate Finance and Utilities, Infrastructures and Projects ("UIP") secured by residential, commercial securities, fixed and floating charge and negative pledge. Wholesale investments and securities are mainly unsecured, with some secured lending in the form of covered bonds. Securitised assets such as residential mortgage backed securities are secured by the pro-rata portion of the underlying pool of assets held by the issuer of the securitised bond.

Pre-settlement risk arises from the group's investment and derivative activities. To mitigate this risk, the Group uses central clearing counterparties for its investments and enters into master netting agreements with derivative counterparties.

Maximum credit risk exposure

The fair value of collateral is determined by using an acceptable valuation of the property for each borrowing application. The type of valuation required is fundamentally driven by the associated risk of each borrower and is determined by considering a number of different factors such as loan to value ratio, loan amount, security amount, security location, purpose of loan and source document supporting the borrowers' estimates. Acceptable valuations include but are not limited to a contract of sale, rates notice and valuations by registered valuers.

The maximum credit risk exposure before taking into consideration collateral or credit enhancements for relevant items on the Balance Sheet is the carrying value for the relevant financial asset. For the Off-Balance Sheet items the maximum credit risk exposure is the full amount of the committed facilities including redrawn and undrawn portion. The maximum exposure to credit risk is detailed below:

Consolidated - 2015

amounts in thousands of dollars			FV of collateral and credit enhancements held						
Financial assets	Note	Maximum exposure to credit risk	Cash	Letters of credit/ guarantees	Property	Netting agreements	Surplus collateral	Net collateral	**Net Exposure**
Cash and cash equivalents	6	708,606	-	-	-	-	-	-	708,606
Due from other financial institutions	7	351,190	-	-	-	-	-	-	351,190
Receivables and other assets		139,157	-	-	-	-	-	-	139,157
Available for sale financial assets	8	4,853,425	-	-	-	-	-	-	4,853,425
Loans and advances	10	43,621,760	-	1,012,218	71,644,932	-	(29,534,380)	43,122,770	498,990
Derivative assets	9	52,629	4,900	-	-	49,155	(4,900)	49,155	3,474
Total		49,726,767	4,900	1,012,218	71,644,932	49,155	(29,539,280)	43,171,925	6,554,842
Off-Balance Sheet									
Undrawn loan commitments	20	6,248,085	-	-	-	-	-	-	6,248,085
Bank accepted guarantees	20	12,361	-	-	-	-	-	-	12,361
Total maximum credit risk exposure		55,987,213	4,900	1,012,218	71,644,932	49,155	(29,539,280)	43,171,925	12,815,288

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Consolidated - 2014

amounts in thousands of dollars		FV of collateral and credit enhancements held							
Financial assets	Note	Maximum exposure to credit risk	Cash	Letters of credit/ guarantees	Property	Netting agreements	Surplus collateral	Net collateral	**Net Exposure**
Cash and cash equivalents	6	808,287	-	-	-	-	-	-	808,287
Due from other financial institutions	7	368,338	-	-	-	-	-	-	368,338
Receivables and other assets		210,911	-	-	-	-	-	-	210,911
Available for sale financial assets	8	7,346,518	-	-	-	-	-	-	7,346,518
Loans and advances	10	41,802,475	-	1,233,580	69,285,171	-	(28,740,529)	41,778,222	24,253
Derivative assets	9	56,665	-	-	-	22,612	-	22,612	34,053
Total		50,593,194	-	1,233,580	69,285,171	22,612	(28,740,529)	41,800,834	8,792,360
Off-Balance Sheet									
Undrawn loan commitments	20	5,667,482	-	-	-	-	-	-	5,667,482
Bank accepted guarantees	20	10,647	-	-	-	-	-	-	10,647
Total maximum credit risk exposure		56,271,323	-	1,233,580	69,285,171	22,612	(28,740,529)	41,800,834	14,470,489

Collateral – Lending activities

The creditworthiness of customers, trading partners and investments is continually evaluated for their ability to meet their financial obligations to the Group. During the process of creating new loans or investments as well as reviewing existing loans and investments, the Group determines the amount and type of collateral, if any, that a customer may be required to pledge to the Group. Generally, the lower the perceived creditworthiness of a borrower or financial counterparty, the more collateral the customer or counterparty will have to provide.

	Consolidated	
amounts in thousands of dollars	**2015**	2014
Held against past due but not impaired assets	743,528	1,193,608
Held against impaired assets	126,988	202,359

Exposure not mitigated by collateral as a percentage of total financial assets	**Consolidated**	
in percentages	**2015**	2014
Residential mortgages	0.03%	0.02%
Commercial property	0.03%	0.03%
Corporate	0.94%	0.00%
Financial assets other than loans and advances	12.23%	17.35%
Total	13.23%	17.40%

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Collateral – Derivative contracts

The Group has "Credit Support Annex" agreements with all wholesale counterparties. These agreements allow the Group to issue margin calls on the net mark-to-market amount of derivative positions held between the Group and individual wholesale counterparties. These agreements and subsequent collateral calls reduce the credit risk with these counterparties as the mark-to-market value increases.

Distribution of financial assets by credit quality

The table below details the distribution of credit quality of financial assets. An asset is considered to be past due when any payment under the contractual terms has been missed.

Consolidated and Bank	2015		2014	
amounts in thousands of dollars	$000	%	$000	%
Neither past due nor impaired	49,058,797	99%	49,728,211	99%
- of which: Residential	37,997,105	77%	37,015,619	75%
- of which: Commercial	3,302,679	7%	2,771,581	5%
- of which: Corporate	1,480,959	3%	1,047,595	2%
- Related entities	156,779	0%	95,065	0%
- Financial assets other than loans and advances	6,121,275	12%	8,798,351	17%
Past due but not impaired gross loans and advances	568,311	1%	705,141	1%
Impaired loans and advances	115,927	0%	167,474	0%
	49,743,035	100%	50,600,826	100%

Risk classes of financial assets

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in Standard and Poor's rating agency ("S&P") equivalents.

Consolidated and Bank		2015		2014	
S&P Equivalent Rating	Risk Grading	$000	%	$000	%
AAA	1	2,885,649	6%	3,878,143	8%
AA	2-4	10,536,277	21%	11,663,636	23%
A	5-7	4,734,764	10%	4,409,148	9%
BBB	8-10	19,074,462	38%	16,919,082	33%
BB	11-13	10,766,321	22%	11,520,068	23%
B	14-16	1,219,007	2%	1,300,996	2%
CCC & Problem Grade	17-20	455,512	1%	602,660	1%
Other financial assets		71,043	0%	307,093	1%
		49,743,035	100%	50,600,826	100%

The distribution of asset exposures by risk grading includes retail, commercial and wholesale investments. The Group maintains a portfolio of commercial investment assets rated by S&P of at least an A- rating. The majority of these investments are rated at least AA- by S&P. The highest (internal) risk grade for retail loans is a risk grade of 3 with the majority rated between risk grades 8 and 10. The highest (internal) risk grade for commercial loans is a risk grade of 10 with the majority rated between risk grades 11 and 13.

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Impaired loans – Accounting Policy

The Group continually measures its portfolio in terms of payment arrears. The impairment levels on the commercial loans are monitored on an individual basis. The impairment levels on the retail portfolios are monitored each month on a portfolio basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. From 7 days past due, letters will be sent to the obligor reminding the obligor of its (past due) payment obligations. Once the account is in arrears, the obligation is usually transferred to the collections business unit. In order to reduce the number of arrears, the Group encourages obligors to set up automatic debits from their accounts to ensure timely payments.

Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. However, there can also be other reasons for declaring a loan impaired prior to it being 90 days past due. These include, but are not limited to, the Group's assessment of a customer's perceived inability to meet its financial obligation, or the customer filing for bankruptcy or bankruptcy protection. In some cases a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category.

Ageing analysis (past due but not impaired)

Consolidated and Bank

amounts in thousands of dollars	2015		2014	
	$000	**%**	$000	%
Less than 1 payment past due	401,408	70%	493,897	70%
1 payment past due	123,923	22%	159,261	23%
2 payments past due	42,980	8%	51,983	7%
	568,311	100%	705,141	100%

Impaired loans by economic sector

Consolidated and Bank	2015		2014	
amounts in thousands of dollars	**$000**	**%**	$000	%
Private individuals	90,075	78%	89,718	54%
Construction & commercial real estate	25,852	22%	77,756	46%
	115,927	100%	167,474	100%

Risk concentration: Group portfolio (by economic sector)

Consolidated and Bank	2015		2014	
in percentages	**$000**	**%**	$000	%
Construction & commercial real estate	3,332,928	7%	2,855,150	6%
Corporate	1,480,959	3%	1,047,595	2%
Financial institutions	2,117,663	4%	2,750,549	5%
Private individuals	38,651,114	78%	37,804,665	75%
Public administration	4,160,371	8%	6,142,867	12%
	49,743,035	100%	50,600,826	100%

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

(b) MARKET RISK

Market risk can be defined as the unexpected adverse movement in income or value due to market circumstances. For the Group, this covers:

- Interest rate risk; and
- Foreign exchange risk.

The Group operates a banking book with the underlying assumption that banking book positions are intended to be held for the long term (or until maturity) or for the purpose of hedging other banking book positions.

Interest rate risk in the banking book

Broadly defined, interest rate risk is the risk of, or potential for, a change in income or economic value of the Group as a result of movements in market interest rates. The term "interest rate risk" can be classified into four main categories:

- **Repricing risk** - the risk of loss in earnings or economic value caused by a change in the overall level of interest rates. This risk arises from mismatches in the repricing dates of an ADI's banking book items. The repricing date of an ADI's asset, liability or other banking book item is the date on which the principal of that item is repaid (in whole or part) to, or by the ADI or on which the interest rate on that principal is reset, if earlier.
- **Yield curve risk** - the risk of loss in earnings or economic value caused by a change in the relative levels of interest rates for different tenors (that is, a change in the slope or shape of the yield curve). Yield curve risk arises from repricing mismatches between assets and liabilities. For most purposes, repricing risk and yield curve risk are grouped together.
- **Basis risk** - the risk of loss in earnings or economic value arising from differences between the actual and expected interest margins on banking book items, where 'margin' means the difference between the interest rate on the items and the implied investment income or cost of funds for those items.
- **Optionality risk** - the risk of loss in earnings or economic value due to the existence of stand-alone or embedded options to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks. An option provides the holder the right but not the obligation to buy, sell or in some manner alter the cash flow of an instrument or financial contract. In the case of options embedded in customer products, losses from optionality risk will arise from customers exercising choices that cause the actual repricing dates to deviate from those specified by the repricing assumptions.

Managing and monitoring interest rate risk

The Group performs stress testing with the existence of triggers to ensure limits are not breached. Risk mitigation is also further explained in Note 9 in relation to hedging using derivatives to mitigate exposure to interest, market and foreign exchange risk.

The type and level of mismatch interest rate risk of the Group is managed and monitored from two perspectives, Economic Value Sensitivity ("EVS") and Earnings at Risk ("EaR").

- EVS is a measure of the increase or decrease in the net economic value of the Group resulting from a change in market interest rates. The process of calculating EVS involves adjusting the current value of all assets and liabilities to the values that would apply in assumed different interest rate environments.
- EaR estimates the amount of change in future earnings of the Group that may result from a change in market interest rates. An objective of this measure is to ensure that the amount of potential diminution of future earnings resulting from changes in market rates is within the risk appetite determined by the Board. The EaR perspective considers how changes in interest rates will affect the Group's reported earnings due to the current and forecast mismatch interest rate positions.

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Interest rate risk analysis

amounts in thousands of dollars	**2015**	2014
EVS		
99th percentile portfolio economic value change plus basis and optionality risk [1]	-77,603	-69,803
Limit =≤ $125,000		
EaR		
- 100bps Shock (Year 1)	-51,042	-31,978
+ 100bps Shock (Year 1)	51,238	32,103
Limit =< $115,000 (2014: $131,200)		

[1] Non-Trading Interest Rate Risk ("NTIRR") Advanced Method

Foreign exchange risk

Foreign exchange exposure is the risk of loss due to adverse movements in exchange rates. Group policy requires that all currency risks are fully hedged.

The IDOL Trust Series 2012-2 USD tranche issuance, while fully hedged economically using a cross-currency swap, is not in an accounting hedge relationship.

Liquidity and funding risk

Liquidity risk is the risk that the Group cannot meet its financial liabilities as and when they come due, at reasonable cost and in a timely manner. Treasury is responsible for ensuring that the Group has continuous access to funds in accordance with policies established and monitored by the Board, Risk Committee and ALCO. The primary objective is to maintain sufficient liquidity in order to ensure safe and sound operations.

The key objectives of the Group's liquidity management policy are to measure, monitor and report expected liquidity flows and maintain a level of liquidity in excess of regulatory and internal defined limits and also to provide early warning signals of potential adverse developments, so that preventative steps may be triggered.

The Group's liquidity policy has been developed in accordance with the liquidity management policies of ING Bank N.V. and APRA prudential standards. APRA Prudential Standard APS 210 Liquidity was effective from 1 January 2015. APS 210 includes the liquidity coverage ratio ("LCR") that measures the Bank's ability to sustain a 30-day pre-defined liquidity stress scenario ADIs subject to the Liquidity Coverage Ratio were required to fully meet a 100 percent minimum ratio as from 1 January 2015. The current internal policy requires the Group to maintain a buffer of marketable liquid assets throughout the year. The level of cash & available for sale financial assets was $5.6 billion at 31 December 2015 (2014: $8.2 billion). The Liquidity coverage ratio at 31 December 2015 is 116% (2014: 114%).

Part of the Group's liquidity strategy is to have adequate and up to date contingency funding plans and early warning liquidity triggers in place throughout the Group. The contingency funding plans were established to address temporary and long term liquidity disruptions caused by a general event in the market or a Group specific event. These plans ensure that all roles and responsibilities are clearly defined and all necessary management information is in place. The main objective of the Group's contingency funding plan and early warning liquidity triggers is to enable senior management to act effectively and efficiently in times of crisis.

The Group's funding sources include retail deposits and wholesale funding. At 31 December 2015, approximately 70% of the Group's funding was provided by retail sources (2014: 66%) and 30% was provided by wholesale and other sources (2014: 34%).

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Maturity analysis of monetary liabilities

Amounts shown below in the tables are based on contractual undiscounted cash flows for the remaining contractual maturities.

Consolidated – 2015

amounts in thousands of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total
Financial liabilities								
Due to other financial institutions	10,083,894	786,751	947,383	1,732,317	2,594,473	4,470,222	68,326	10,599,472
Deposits and other borrowings	31,929,391	21,245,232	852,128	3,201,290	5,799,962	979,249	-	32,077,861
Derivative liabilities	357,687	-	291	1,159	32,244	128,140	195,851	357,685
Creditors and other liabilities	314,685	-	138,311	89,661	52,747	33,386	580	314,685
Provision for dividend	300,000	-	-	300,000	-	-	-	300,000
Debt issues	3,310,961	-	217,224	145,867	848,142	2,255,066	-	3,466,299
Total	46,296,618	22,031,983	2,155,337	5,470,294	9,327,568	7,866,063	264,757	47,116,002
Commitments to extend credit	6,260,446	16	893	1,156,330	96,014	397,191	4,610,002	6,260,446
Total	52,557,064	22,031,999	2,156,230	6,626,624	9,423,582	8,263,254	4,874,759	53,376,448

Bank – 2015

amounts in thousands of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total
Financial liabilities								
Due to other financial institutions	10,286,307	989,164	947,383	1,732,317	2,594,473	4,470,222	68,326	10,801,885
Deposits and other borrowings	31,929,391	21,245,232	852,128	3,201,290	5,799,962	979,249	-	32,077,861
Derivative liabilities	354,829	-	291	1,159	32,244	128,141	192,994	354,829
Creditors and other liabilities	309,255	-	132,880	89,661	52,747	33,386	580	309,254
Provision for dividend	300,000	-	-	300,000	-	-	-	300,000
Debt issues	-	-	-	-	-	-	-	-
Amounts due to controlled entities	2,964,897	2,964,897	-	-	-	-	-	2,964,897
Total	46,144,679	25,199,293	1,932,682	5,324,427	8,479,426	5,610,998	261,900	46,808,726
Commitments to extend credit	6,260,446	16	893	1,156,330	96,014	397,191	4,610,002	6,260,446
Total	52,405,125	25,199,309	1,933,575	6,480,757	8,575,440	6,008,189	4,871,902	53,069,172

Notes to the Financial Statements

16. RISK MANAGEMENT (CONTINUED)

Consolidated – 2014

amounts in thousands of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total
Financial liabilities								
Due to other financial institutions	8,803,460	139,618	689,348	1,324,686	2,668,577	3,981,231	-	8,803,460
Deposits and other borrowings	32,968,745	19,186,442	3,872,389	3,120,504	7,626,591	-	-	33,805,926
Derivative liabilities	460,050	-	-	2,396	15,060	228,041	214,553	460,050
Creditors and other liabilities	317,421	-	149,063	126,676	14,288	26,559	835	317,421
Current tax liabilities	122,221	-	-	-	122,221	-	-	122,221
Provision for dividend	275,000	-	-	275,000	-	-	-	275,000
Debt issues	4,154,396	-	397,888	24,699	104,421	3,848,473	75,151	4,450,632
Total	47,101,293	19,326,060	5,108,688	4,873,961	10,551,158	8,084,304	290,539	48,234,710
Commitments to extend credit	5,678,129	-	381	663,290	42,016	142,309	4,830,133	5,678,129
Total	52,779,422	19,326,060	5,109,069	5,537,251	10,593,174	8,226,613	5,120,672	53,912,839

Bank – 2014

amounts in thousands of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total
Financial liabilities								
Due to other financial institutions	8,803,460	139,618	689,348	1,324,686	2,668,577	3,981,231	-	8,803,460
Deposits and other borrowings	33,085,494	19,303,191	3,872,389	2,969,654	7,626,591	-	-	33,771,825
Derivative liabilities	457,882	-	-	2,149	15,060	226,120	214,553	457,882
Creditors and other liabilities	309,497	-	138,539	126,676	16,888	26,559	835	309,497
Current tax liabilities	119,621	-	-	-	119,621	-	-	119,621
Provision for dividend	275,000	-	-	275,000	-	-	-	275,000
Debt issues	386,404	-	-	388,413	-	-	-	388,413
Amounts due to controlled entities	3,376,638	3,376,638	-	-	-	-	-	3,376,638
Total	46,813,996	22,819,447	4,700,276	5,086,578	10,446,737	4,233,910	215,388	47,502,336
Commitments to extend credit	5,678,129	-	382	663,290	42,016	142,309	4,830,133	5,678,130
Total	52,492,125	22,819,447	4,700,658	5,749,868	10,488,753	4,376,219	5,045,521	53,180,466

17. CAPITAL MANAGEMENT

The Group's capital management strategy aims to ensure adequate capital levels to protect deposit holders and to maximise shareholder returns. The Group's capital is measured and managed in line with Prudential Standards and minimum regulatory capital requirements for banks established by APRA which are consistent with the Basel III Accord issued by the Basel Committee. APRA has set minimum ratios that compare the regulatory capital with risk weighted on and off-Balance Sheet assets for credit and operational risks as well as mandating a charge for other risks that may or may not be easily measured. The Group has been in compliance with the capital requirements imposed by APRA throughout the year.

The Group chooses to hold capital in addition to prudential minimum levels by maintaining capital buffers that are sufficient to absorb potential losses and increased regulatory capital under extreme but plausible stress scenarios. The Internal Capital Adequacy Assessment Process ("ICAAP") supports the Group's Capital Management Policy which defines the framework for defining, measuring, management, monitoring and governance of the Group's capital position.

Notes to the Financial Statements

17. CAPITAL MANAGEMENT (CONTINUED)

Capital planning is a dynamic process which involves various teams and covers internal capital target ratios, potential capital transactions as well as projected dividend pay-outs. The integral parts of capital planning comprise business operating plans, stress-testing, ICAAP along with considerations of regulatory capital requirements, accounting changes, taxation rules and expectations of rating agencies. The capital plan is established on annual basis and is aligned with management actions included in the 3 year business plans, which includes forecast growth in assets and earnings taking into account the Group's business strategies, projected market and economic environment and peer positioning. All the components of the capital plan are monitored throughout the year and are revised as appropriate.

The Board has set the Common Equity Tier 1 capital target range to be greater than 10% of risk weighted assets and the total capital range to be greater than 12% of risk weighted assets.

As at 31 December 2015:

- Common Equity Tier 1 capital was $3.3 billion (2014: $3.3 billion);
- Total Tier 1 capital was $3.3 billion (2014: $3.3 billion);
- Total capital adequacy ratio was 13.4% (2014: 14.0%).

Credit risk capital

In accordance with APRA's methodology, measuring credit risk requires one of a number of risk weights to be applied to each asset on the Balance Sheet and to off-Balance Sheet obligations. The risk weights are applied based on APRA's Basel III Standardised Approach.

Operational risk capital

Risk Weighted Assets for operational risk is calculated under the Basel III Standardised Approach based on the semi-annual changes in the Balance Sheet and Income Statement as well as potentially requiring the Group to hold additional capital for other risks it may deem significant.

Market risk

The Group holds sufficient capital to cover the potential risks associated with interest rate risk in the banking book. The Group measures this risk by ascribing a portion of the capital adequacy limit to cover the calculated change in economic value from adverse movements in interest rates. The Group has implemented buffer and trigger limit structures (Pillar ii) to ensure that sufficient capital is maintained to meet unexpected changes in the risk profile of the Group resulting from short term movements in market interest rates.

Capital Adequacy	**Consolidated**	
amounts in thousands of dollars	**2015**	2014
Qualifying capital		
Tier 1		
Total equity	3,499,886	3,517,401
Reserve adjustments	(141,998)	(139,506)
Regulatory adjustments	(38,088)	(38,145)
Common Equity Tier 1	3,319,800	3,339,750
Additional Tier 1 Capital	-	-
Total Tier 1 qualifying capital	3,319,800	3,339,750
Tier 2		
General reserve for credit losses and collective provisioning	134,214	134,214
Total Tier 2 qualifying capital	134,214	134,214
Total regulatory capital	3,454,014	3,473,964
Total risk adjusted assets and Off-Balance Sheet exposures	25,800,838	24,754,629
Capital adequacy ratio	13.4%	14.0%

Notes to the Financial Statements

17. CAPITAL MANAGEMENT (CONTINUED)

Dividend provided for or paid	2015	2014
Franked dividend for 2015: 22.5 cents per share (2014: 20.6 cents per share)	300,000	275,000
	300,000	275,000

Dividends - Accounting policy

A provision is made for the amount of any dividend declared being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial assets and liabilities listed below are recognised and measured at fair value and therefore the carrying value equates to their fair value:

Financial instrument	Fair value techniques	Assumptions
Available for sale financial assets	Available for sale investments are initially recognised at fair value plus any directly attributable transaction costs. Any changes in fair value are recognised in other comprehensive income up until sale. Interest income received on these assets is recorded in net interest income with any realised gains and losses on sale recognised in non-interest income.	Fair values of quoted investments in active markets are based on current bid prices.
Derivative assets and liabilities	For at-call deposits, the carrying amount is an approximation of fair value.	The fair value of swaps is calculated by utilising discounted cash flow models, based on the estimated future cash flows.

The following table lists the financial assets and liabilities which are not measured at fair value:

Financial asset/liability	Fair value techniques	Assumptions
Cash and cash equivalents	The carrying amount is an approximation of fair value.	Short term in nature or are receivable on demand.
Due from other financial institutions	The carrying amount of amounts due from other financial institutions is an approximation of fair value.	Short term in nature and of high credit rating.
Receivables and other assets	The carrying amount of accrued interest receivable is an approximation of fair value.	Short term in nature.
Loans and advances	For variable loans the carrying amount is an approximation of fair value. For fixed rate loans the fair value is calculated by utilising discounted cash flow models, based on the contractual terms of the loans.	For variable rate loans the discount rate used is the current effective interest rate. For fixed rate loans the discount rate applied reflects the market rate for the maturity of the loan.
Deposits	Short term in nature or are payable on demand. For term deposits, the fair value is calculated by utilising discounted cash flow models, based on the maturity of the deposits.	For term deposits the discount rate applied is the current rate offered for deposits of similar remaining maturities.

Notes to the Financial Statements

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial asset/liability	Fair value techniques	Assumptions
Debt issues	The fair value of debt issues is calculated by utilising discounted cash flow models, based on the estimated future cash flows.	The discount rate applied is based on quoted market prices where available for the instrument and the term of the issue.
Creditors and other liabilities	The carrying amount of creditors and other liabilities is an approximation of fair value.	Short term in nature.
Amounts due to controlled entities	The carrying amount of amounts due to controlled entities is an approximation of fair value.	Arises from imputed loan approach and represents the obligation to repay the Trusts on the equitable assignment of loans.

Fair value hierarchy

The Group measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1 – Reference to quoted unadjusted market prices in active markets for identical instruments.
Level 2 – Inputs other than quoted prices that are observable either directly or indirectly.
Level 3 – Inputs that are unobservable (no observable market data).

The following table presents the fair values of the Group's financial assets and liabilities which are measured at fair value or for which the fair value is disclosed, where the financial assets and liabilities are not measured at fair value and the carrying amount is not an approximation of the fair value.

Consolidated - 31 December 2015

amounts in thousands of dollars	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Assets measured at fair value:					
Available for sale financial assets	4,853,425	4,750,037	101,668	1,720	4,853,425
Derivative assets	52,629	-	52,629	-	52,629
Assets for which fair values are disclosed:					
Loans and advances	43,594,208	-	-	43,668,737	43,668,737
Liabilities measured at fair value:					
Derivative liabilities	357,687	-	357,687	-	357,687
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	42,013,285	22,036,883	235,749	19,817,120	42,089,752
Debt issues	3,310,961	-	3,319,673	-	3,319,673

Bank - 31 December 2015

amounts in thousands of dollars	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Assets measured at fair value:					
Available for sale financial assets	4,853,425	4,750,037	101,668	1,720	4,853,425
Derivative assets	15,450	-	15,450	-	15,450
Assets for which fair values are disclosed:					
Loans and advances	43,594,208	-	-	43,668,737	43,668,737
Liabilities measured at fair value:					
Derivative liabilities	354,829	-	354,829	-	354,829
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	42,215,698	22,239,296	235,749	19,817,120	42,292,165
Debt issues	-	-	-	-	-
Amounts due to controlled entities	2,964,897	-	-	2,964,897	2,964,897

Notes to the Financial Statements

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated - 31 December 2014

amounts in thousands of dollars	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Assets measured at fair value:					
Available for sale financial assets	7,346,518	6,121,657	1,222,609	2,252	7,346,518
Derivative assets	56,665	-	56,665	-	56,665
Assets for which fair values are disclosed:					
Loans and advances	41,762,000	-	-	41,881,511	41,881,511
Liabilities measured at fair value:					
Derivative liabilities	460,050	-	460,050	-	460,050
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	41,772,205	19,020,805	717,098	22,179,017	41,916,920
Debt issues	4,154,396	-	4,192,374	-	4,192,374

Bank - 31 December 2014

amounts in thousands of dollars	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
Assets measured at fair value:					
Available for sale financial assets	7,346,518	6,121,657	1,222,609	2,252	7,346,518
Derivative assets	17,485	-	17,485	-	17,485
Assets for which fair values are disclosed:					
Loans and advances	41,762,000	-	-	41,881,511	41,881,511
Liabilities measured at fair value:					
Derivative liabilities	457,882	-	457,882	-	457,882
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	41,888,954	19,137,553	717,098	22,179,017	42,033,668
Debt issues	386,404	-	388,216	-	388,216
Amounts due to controlled entities	3,376,638	-	-	3,376,638	3,376,638

Transfers between Level 2 and Level 3

There have been no transfers during the year.

Valuation process for Level 3 valuations

The valuation of mortgage-backed securities is performed on a daily basis. The valuations are also subject to quality assurance procedures performed within the Market Risk department.

The Market Risk department verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents and market information. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations in the four preceding quarters as well as with the valuations of the two preceding annual periods.

There were no changes in valuation techniques during the year.

Notes to the Financial Statements

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated and Bank – 31 December 2015

Quantitative information of significant unobservable inputs – Level 3:

Description	$000	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities	1,720	DCF Method	Weighted Average Life	1.6 - 3.3 years
			Credit spread	204 – 400bps

Consolidated and Bank – 31 December 2014

Quantitative information of significant unobservable inputs – Level 3:

Description	$000	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities	2,252	DCF Method	Weighted Average Life	1.7 - 3.3 years
			Credit spread	97 – 300bps

Consolidated and Bank – 31 December 2015

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3:

Description	Input	Sensitivity used	Effect on fair value $000
Mortgage-backed securities	Weighted Average Life	+/-10%	+/- 6
	Credit spread	+/-10%	+/- 5.8

Consolidated and Bank – 31 December 2014

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3:

Description	Input	Sensitivity used	Effect on fair value $000
Mortgage-backed securities	Weighted Average Life	+/-10%	+/- 12
	Credit spread	+/-10%	+/- 3.6

Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

Notes to the Financial Statements

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2015	Available for sale financial assets: Mortgage-backed securities	
amounts in thousands of dollars	Consolidated	Bank
Opening balance – 1 January 2015	2,252	2,252
Transfers into or (out of) Level 3	-	-
Total gains and losses		
- Other comprehensive income	(532)	(532)
Closing balance – 31 December 2015	1,720	1,720

As at 31 December 2014	Available for sale financial assets: Mortgage-backed securities	
amounts in thousands of dollars	Consolidated	Bank
Opening balance – 1 January 2014	2,526	2,526
Transfers into or (out of) Level 3	-	-
Total gains and losses		
- Other comprehensive income	(274)	(274)
Closing balance – 31 December 2014	2,252	2,252

19. SHARE BASED PAYMENTS

The following table illustrates the number ("No") and weighted average exercise prices ("WAEP") in Euro of, and movements in, share options issued during the year.

Share options	**2015 - No**	**2015 - WAEP**	2014 - No	2014 - WAEP
Outstanding at the beginning of the year	356,855	€ 14.82	386,846	€ 14.29
Lapsed or forfeited during the year	(66,028)	€ 18.13	(98,978)	€ 10.84
Exercised during the year	(92,747)	€ 6.70	-	-
Transferred during the year	4,377	€ 10.07	68,987	€ 12.07
Outstanding at the end of the year	202,457	€ 17.36	356,855	€ 14.82
Exercisable at the end of the year	202,457	€ 17.36	356,855	€ 14.82

The following tables illustrate the number ("No") and weighted average grant prices ("WAGP") in Euro of, and movements in, performance units issued during the year.

Performance units	**2015 - No**	**2015 – WAGP**	2014 - No	2014 - WAGP
Outstanding at the beginning of the year	177,771	€ 7.45	216,377	€ 6.56
Forfeited during the year	(12,866)	€ 8.71	-	-
Granted during the year	114,454	€ 12.94	105,002	€ 9.81
Vested during the year	(124,248)	€ 8.97	(159,707)	€ 7.73
Transferred during the year	2,673	€ 7.44	16,099	€ 6.15
Outstanding at the end of the year	157,784	€ 10.14	177,771	€ 7.45

Notes to the Financial Statements

19. SHARE BASED PAYMENTS (CONTINUED)

The outstanding balances of share options as at 31 December 2015 are:

Year of Grant	Number of Options	Exercise Price	Number of Options	Exercise Price
2005	-	-	43,012	€ 17.88
2006	35,273	€ 25.16	39,218	€ 25.16
2007	41,941	€ 24.72	45,523	€ 24.70
2008	83,150	€ 16.58	95,494	€ 16.60
2009	21,887	€ 2.90	35,722	€ 2.90
2010	20,206	€ 7.35	97,886	€ 7.35
Total	202,457	€ 17.34	356,855	€ 14.82

All options are granted in the ultimate parent entity, ING Groep N.V. and are exercisable 3 years from the issue date at the exercise price noted above.

The outstanding balances of performance units as at 31 December 2015 are:

Year of Grant	Number of Performance Units	WAGP	Number of Performance Units	WAGP
2012	-	-	27,625	€ 6.40
2013	36,965	€ 5.63	77,589	€ 5.69
2014	45,928	€ 9.62	72,557	€ 9.74
2015	74,891	€ 12.68	-	-
Total	157,784	€ 10.14	177,771	€ 7.45

All performance units are granted in the ultimate parent entity, ING Groep N.V. and vest 3 years from the issue date at the exercise price noted above. The actual expense for share based payments for the 2015, net of tax is $1,773k (2014: $1,153k)

The fair value of share options has been determined using a Monte Carlo simulation taking into account the terms and conditions upon which the instruments were granted. This model takes the risk free interest rate into account (ranging from 2.02% to 4.62%), as well as the expected life of the options granted (from 5 years to 9 years), the exercise price (EUR 2.90 – EUR 25.16), the current share price, the expected volatility of the certificates of ING Group shares (25% - 84%) and the expected dividend yield (0.94% to 8.99%). The fair value of the options is recognised as an expense under employment expenses and is allocated over the vesting period of the instruments.

Share options have a weighted average contractual maturity of 10 years while performance units have a weighted average contractual maturity of 2.38 years. The weighted average remaining contractual life for share options outstanding is 1.97 years.

Share-based payment transactions – Accounting policy

The Group provides benefits to key personnel including key management personnel in the form of share-based payments (share options and performance units). The settlement amount is determined by reference to movements in the exercisable price of the shares of the ultimate parent company ING Groep N.V. and the price on the date the options are exercised. The cost is measured at the fair value of the equity instruments granted. The grant date is the date on which the Group and the employee agree to a share-based payment arrangement.

The measurement of share-based payment transactions granted is determined by ING Groep N.V. and is based on their fair value using a generally accepted valuation methodology. Share-based payments do not vest until the employee completes a specified period of service being 3 years from the date of grant (the vesting period). Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the equity-settled transactions.

Notes to the Financial Statements

19. SHARE BASED PAYMENTS (CONTINUED)

The fair value of share-based payment transactions is expensed over the vesting period. The charge to the Income Statement is the fair value of the equity-settled transactions less the amounts already charged in previous periods. The fair value is recognised as an employee expense with a corresponding increase in equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

Employee share option plan

Share options were granted to key personnel by the ultimate parent company ING Groep N.V. during the year. These options are exercisable 3 years from the issue date. All options must be exercised by no later than 10 years from the issue date.

Employee performance units plan

During the year key personnel were issued with performance units. These performance units vest after 3 years, provided that the employee remains in the Group's employment. The awarded shares will be multiplied by a certain factor that is dependent upon ING Groep N.V.'s total shareholder's return compared to a peer group of 19 other financial institutions.

20. COMMITMENTS AND CONTINGENCIES

Irrevocable commitments to extend credit at call include all obligations on the part of the Group to provide credit facilities; and bank accepted guarantees representing unconditional undertakings by the Group to support the obligations of its customers to third parties.

	Consolidated	
amounts in thousands of dollars	**2015**	2014
Commitments to extend credit		
- irrevocable commitments to extend credit	6,248,085	5,667,482
- bank accepted guarantees	12,361	10,647
Total commitments to extend credit	6,260,446	5,678,129
Operating leases – land & buildings *		
Lease payments due:		
- not later than 1 year	11,047	10,492
- later than 1 year and less than 5 years	64,121	18,219
- later than 5 years	60,871	-
Total minimum lease payments	136,039	28,711

* Operating leases are the leases of the premises the Group occupies at 140 Sussex Street (Sydney), 3 Reliance Drive (Tuggerah), 6 Reliance Drive (Tuggerah), 114 William St (Melbourne), 6-12 Hurtle Parade, Mawson Lakes (Adelaide), 100 Edward Street (Brisbane) and 474 Murray Street (Perth). During the year, the Group has entered into a lease agreement in respect of premises at 60 Margaret Street (Sydney) commencing 2017 .

Leases – Accounting Policy

Leases are classified at commencement as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the lease liability.

The Group did not have any finance or leveraged leases in place as at 31 December 2015 (2014: Nil).

Notes to the Financial Statements

20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Bank

amounts in thousands of dollars	2015	2015	2014	2014
	Unused	**Available**	Unused	Available
Liquidity facilities to related entities	**210,239**	**210,239**	244,560	244,560

There are no contingent assets and liabilities at the consolidated level. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

21. RELATED PARTY DISCLOSURES

Key management personnel compensation

The key management personnel of the Group during the year were:

Specified Executives:

Sander Aardoom	Chief Financial Officer (reassigned to ING Groep N.V. on 22 January 2016)
Simon Patrick Andrews	Chief Operating Officer
Bart Frans Maarten Hellemans	Chief Risk Officer
John Andrew Arnott	Executive Director, Customers
Lisa Dominique Claes	Executive Director, Customer Delivery
Alan Lee	Chief Financial Officer (from 22 January 2016)
Fiona Rachel Monfrooy	Executive Director, Human Resources (from 9 June 2015)
John Philip Moore	Executive Director, Commercial Property Finance (resigned 24 December 2015)
Natalie Jane Nicholson	Executive Director, Human Resources (resigned 30 January 2015)
Michael Anthony Witts	Treasurer

Specified Directors:

Michael Katz	Director (Non-Executive)
Amanda Lacaze	Director (Non-Executive)
John Masters	Director (Non-Executive)
Ann Sherry AO	Director (Non-Executive)
Vaughn Nigel Richtor	Director (Executive) and Chief Executive Officer
Mark Edwin Newman	Director (Non-Executive) (appointed 8 April 2015)
Aris Bogdaneris	Director (Non-Executive) (appointed 18 August 2015)
Cornelis Petrus Adrianus Joseph Leenaars	Director (Non-Executive) (resigned 10 June 2015)

Notes to the Financial Statements

21. RELATED PARTY DISCLOSURES (CONTINUED)

The compensation paid or payable to key management personnel of the Group for the year:

amounts in thousands of dollars	2015	2014
Short-term employee benefits	**4,774**	4,665
Other long-term benefits	**949**	903
Share-based payments	**943**	564
Total compensation	**6,666**	6,132

Loans have been provided to key management personnel and these loans were conducted in the normal course of business and on terms applicable to the Group's personnel. Other transactions entered into by key management personnel include holding transactional accounts, savings deposits and superannuation accounts which are all on normal commercial terms.

Transactions with entities in the wholly owned group

Aggregate amounts receivable comprise term loans, at-call loans, accrued interest and inter-company balances. Aggregate amounts payable comprise mainly deposits but could also comprise subordinated debt, certificates of deposit, accrued interest and inter-company balances. Interest received and charged was on normal commercial terms throughout the year. No security or guarantee has been provided and no bad and doubtful debt provisions were raised during the year.

Other intragroup transactions, which are on commercial terms, include the provision of management and administration services, fees for expenses incurred for services rendered on behalf of entities in the wholly owned ING Groep N.V., ING Bank N.V. (Sydney Branch)'s facilitation of back-to-back interest rate derivatives between the Bank and the Trusts and UIP deals entered in conjunction with other ING related entities.

Consolidated

amounts in thousands of dollars	2015	For the Period	2014	For the Period
Aggregate amounts receivable from related parties in the wholly owned group	354,759	9,934	404,123	10,499
Aggregate amounts payable to the ultimate controlling entity	(1,296)	(10,160)	(1,787)	(11,127)
Aggregate amounts payable to related parties in the wholly owned group	(8,025,130)	(244,968)	(8,486,037)	(268,452)
Amounts paid or payable to related bodies	(166)	(149)	-	(35)
Total	(7,671,833)	(245,343)	(8,083,701)	(269,115)

Transactions with controlled entities

Bank

amounts in thousands of dollars	2015	For the Period	2014	For the Period
Aggregare amounts receivable from controlled entities	30,137	148,427	22,620	137,297
Aggregate amounts due to controlled entities	(2,964,897)	(198,863)	(3,376,638)	(246,904)
Total	(2,964,897)	(198,863)	(3,376,638)	(246,904)

Notes to the Financial Statements

22. AUDITOR'S REMUNERATION

	Consolidated		Bank	
amounts in thousands of dollars	**2015**	2014	**2015**	2014
Amounts paid or due and payable for audit of the consolidated financial report by Ernst & Young	466	557	287	404
Amounts paid or due and payable for other services to Ernst & Young:				
Regulatory services	132	129	132	129
Taxation services	165	164	165	164
Other services	148	145	148	145
Total	911	995	732	842

Auditor's remuneration amounts stated above are exclusive of GST.

23. SUBSEQUENT EVENTS

On 1 March 2016, the directors of the Group paid a dividend on ordinary shares in respect of the 2015 financial year. The total amount of the dividend payment of $300 million (2014: $275 million) to ING Bank N.V., the parent, represents a fully-franked dividend of 22.5 cents per share (2014: 20.6 cents per share).

Other than the matter mentioned above, no subsequent events or transactions have occurred since the year ended 31 December 2015 or are pending that would have a material effect on the Financial Statements.

24. OTHER ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

New accounting standards

The following standards became effective in 2015 and have been reflected in the Group's Financial Statements:

- *2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality* – This standard affects the withdrawal of AASB 1031 Materiality and deletes references to this standard in all Australian Accounting Standards. A revised Conceptual Framework now provides guidance in the absence of this standard. This amendment is applicable for reporting periods beginning on or after 1 July 2015 and has been early adopted.
- Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140]

The annual improvements amending standard largely focuses on editorial corrections and changes to interim statements, methods of disposal and other matters not applicable to the Group. Applicable to the Group is the change in AASB 119 Employee Benefits which clarifies requirements for the regional market rate applicable in the discounting of long term employee benefits.

The following Australian Accounting standards have been issued but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2015:

- AASB 9 *Financial Instruments* - This standard improves and simplifies the classification and measurement of financial assets. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The AASB has decided to postpone the mandatory application of AASB 9 until 1 January 2018. The new requirements of AASB 9 will be further assessed closer to the effective date. Currently an internal project is underway with the Group to assess the impact of implementation of the new standard prior to adoption.

Notes to the Financial Statements

24. OTHER ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS (CONTINUED)

- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049] has been issued effective for reporting periods beginning on or after 1 January 2016. The amending standard deals with a number of presentation matters like only including material disclosures in financial statements, organisation of accounting policy and other notes. The standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements.

- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140]. This Standard implements the five changes to the four standards below:

  AASB 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal.
  AASB 7 Financial Instruments: Disclosures - Servicing contracts.
  Applicability of the amendments to AASB 7 to condensed interim financial statements.
  AASB 119 Employee Benefits - Discount rate: regional market issue.
  AASB 134 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'.
  The application date for this standard is 1 January 2016. The main impact for the Group will be from AASB 119 Employee Benefits. There will be a change in discount rates for the calculation of Annual and Long Service Leave Provisions. Discussions with actuaries should take place to determine impact. The new requirements for AASB 119 will be further assessed closer to the effective date.

- AASB 15 'Revenue from Contracts with Customers' contains new requirements for the recognition of revenue and additional disclosures. On 30 July 2015, the IASB issued its package of proposed amendments to the new revenue standard in response to implementation issues raised by stakeholders and discussed by the Transition Resource Group. It is applicable for annual reporting periods beginning on or after 1 January 2017.

  The IASB also voted on 22 July 2015 to finalise the one-year deferral of the revenue standard until years beginning on or after 1 January 2018. The AASB is also expected to make a similar amendment. The potential financial impact of this to the Group is not yet possible to determine.

- AASB 2014-4 (Amendments to AASB 116 and AASB 138 - Clarification of Acceptable Methods of Depreciation and Amortisation). AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The application date for this standard is 1 January 2016. There will be an immaterial impact to the Group.

- IFRS 16 'Leases' was issued in January 2016 and applies to annual reporting periods on or after 1 January 2019. The main impact of the new standard will require lessees to recognise assets and liabilities for all operating and finance leases, except where the lease is for a period less than 12 months and of low value. The financial impact to the Group is still to be determined.

The following new standards and amendments to existing standards are not yet mandatory and they are not expected to result in significant changes to the Group's accounting policies:

- AASB 1057 Application of Australian Accoonting Standards.

- AASB 2015-3 (Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

- AASB 2015-4 (Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.

Notes to the Financial Statements

24. OTHER ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS (CONTINUED)

Consolidation

Subsidiaries

The consolidated Financial Statements comprise the Financial Statements of the Bank and its controlled entities. Control exists when the Bank has the power over the investee, being the ability to direct the relevant activities, exposure or rights to variable returns and ability to use its power over the investee to affect those returns.

The Financial Statements of the controlled entities are included in the consolidated financial report from the date that control commences until the date that control ceases. In the Bank's Financial Statements, investments in controlled entities are carried at cost.

Securitisation

The Bank conducts a loan securitisation program whereby the equitable rights to selected mortgage loans are packaged and sold as securities issued by the special purpose trusts.

The investors in the securities issued by the Trusts have full recourse to the assets transferred to the Trusts. The Bank receives the residual income distributed by the Trusts after all payments due to investors and associated costs of the program have been met. In addition to this, the Bank retains the junior notes issued by the Trusts and interest rate risk from the Trusts is transferred back to the Bank by way of interest rate swaps. Hence, the Bank is considered to retain the risks and rewards of these cash flows. Accordingly, the original sale of the mortgages from the Bank to the Trusts does not meet the derecognition criteria set out in AASB 139.

The Bank continues to reflect the securitised loans in their entirety due to retaining substantially all the risks and rewards associated with the loans. The obligation to repay this amount to the Trusts is recognised as a financial liability of the Bank and included within amounts due to controlled entities. In addition, the Bank discloses securitisation income, which represents income received from the Trusts which includes the residual spread income, trust manager fees, servicer fees and liquidity facility fees. All transactions between the Bank and the Trusts are eliminated on consolidation.

Structured entities

The Group's activities involve transactions with various structured entities in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which the Group can exercise control are consolidated. The Group may provide support to these consolidated structured entities as and when appropriate, however this is fully reflected in the consolidated Financial Statements of the Group as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed. All structured entities are consolidated.

As not substantially all risks and rewards of the assets are transferred to the third party investors of the Trusts, the Group continues to recognise these assets in the Bank's stand-alone Financial Statements.

Assets used in securitisation programmes	**2015**	2014
Residential mortgages	9,146,429	11,202,331
Total	9,146,429	11,202,331

Facilities used in securitisation programmes	**2015**	2014
Liquidity facilities	210,239	244,560
Total	210,239	244,560

Notes to the Financial Statements

24. OTHER ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS (CONTINUED)

Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates at reporting date.

Foreign currency swaps are valued at fair value using the appropriate market rates at balance date. Unrealised profits and losses arising from these revaluations are recognised in 'net non-interest income' in the Income Statement.

Impairment of other financial assets

The Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset but before the balance sheet date ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on an asset carried at amortised cost 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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement.

Recoverable amount of assets

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the Group makes a formal estimate of recoverable amount (lower of value in use or fair value less cost to sell). Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Property, plant and equipment

Property, plant and equipment is measured at historical cost and depreciated or amortised on a straight-line basis over the estimated useful life of the assets.

Leasehold improvements are amortised over the remaining term of the lease.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined based on the cash-generating unit to which the asset belongs. Where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Major depreciation and amortisation periods are:

Category	2015	2014
Computer software	3 - 5 years	3 years
Computer hardware	3 - 5 years	3 years
Leasehold improvements	Term of lease	Term of lease
Personal computers	3 years	3 years

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the Income Statement.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable that the asset will generate future benefits for the Group. They are recognised at cost and amortised on a straight line basis over the estimated useful life of the assets. Those assets with an indefinite useful life are tested for impairment annually. All intangible assets must be tested for impairment when there is an indication that its carrying amount may be greater than its recoverable amount.

Notes to the Financial Statements

24. OTHER ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS (CONTINUED)

Derecognition

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement which is determined by the extent to which the Group is exposed to changes in the value of the asset.

Derecognition of fixed assets

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposable proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

Goods and services tax

Income, expenses and assets are recognised net of the amount of Goods and Services Tax (“GST”) except:

(i) when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Creditors and other liabilities

Liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Recognised initially at their fair value and subsequently measured at amortised cost, using a methodology that is in line with the effective interest rate method.

Loans and advances, Receivables and other assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They include all secured loans made to retail and commercial borrowers, inter-bank loans and leveraged leases. After initial measurement loans and advances, receivables and other assets are held at amortised cost using a methodology that is in line with the effective interest rate method.

Operating expenses

Operating expenses are recognised as the relevant service is rendered or once a liability is incurred. Staff expenses are recognised over the period the employee renders the service to receive the benefit. Information technology expenses are recognised as incurred unless they qualify for capitalisation if the asset generates probable future economic benefits.

Reclassification of comparatives

Certain comparative figures have been reclassified to conform to the current year’s presentation and enhance readability.

Directors' Declaration

In accordance with a resolution of the Directors of ING Bank (Australia) Limited, we state that:

In the opinion of the Directors:

a) The Financial Statements and notes of the Company and consolidated entities are in accordance with the Corporations Act 2001, including;

 i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

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

b) The Financial Statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

c) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Michael Katz
Chairman

Vaughn Richtor
Director

Sydney
30 March 2016

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Independent auditor's report to the member of ING Bank (Australia) Limited

We have audited the accompanying financial report of ING Bank (Australia) Limited, which comprises the balance sheet as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

a. the financial report of ING Bank (Australia) 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 2015 and of their performance for the year ended on that date; and

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

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

Ernst & Young

Ernst & Young

Andrew Harmer
Partner
Sydney
30 March 2016