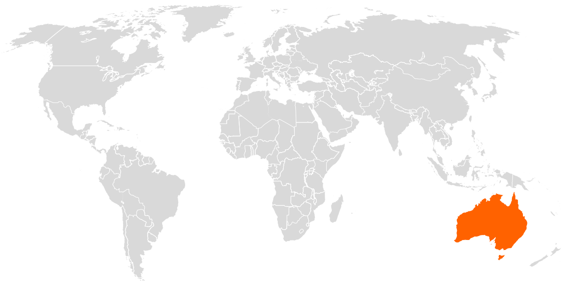
ING Bank (Australia) Limited and its controlled entities Annual Report 2016

16 March 2017

A snapshot of our business

Who we are

- ING Bank (Australia) Limited - trading as ING DIRECT - is Australia's leading direct bank, and wholly owned by ING Group
- Headquartered in Sydney, with a 24/7 Tuggerah contact centre



2016 highlights

- 163,000 new customers
- Primary bank (main financial institution) customer numbers increased 36%
- Crossed 500,000 Orange Everyday payment accounts
- Launched home and contents insurance
- New digital platform allows us to personalise customer experience and delivery
- Industry leading customer advocacy

Our customers

- 1.7 million customers
- #1 Net Promoter Score

Our people

- 1130 employees
- 82% sustainable engagement score

Our award highlights

- AB&F Australian Retail Banking Awards - Australian Financial Institution of the Year (Non Big 4)
- AB&F Australian Retail Banking Awards - CEO of the Year—Vaughn Richtor
- CEO Magazine Executive Awards – Marketing Executive of the Year—John Arnott
- Money Magazine – Money Minder of the Year
- Australian Lending Awards – Best Customer Experience

Our community

- Helped 13 social enterprises, through the Dreamstarter program, with fundraising and capacity building support to launch and grow their business
- Launched the Transition to Work mentoring program, in partnership with Cerebral Palsy Alliance, for young adults with a disability

Financial highlights

Net profit after tax of	Cost to income ratio	Capital adequacy ratio	Savings	Loans
$295m	39.4%	12.8%	$36,718m	$47,839m

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CEO's year in review

At ING in Australia, our purpose is to empower people to stay a step ahead in life and in business. We adopt a sustainable approach to doing business so that we can endeavour to stimulate positive change in society as a whole. We are committed to making a difference socially, environmentally and economically.

2016 was another successful year for ING in Australia, in which we made significant progress with our strategy to become our customers' primary bank, providing a unique, seamless and 24/7 banking experience.

I am pleased to share that we increased our primary bank (main financial institution) customer numbers by 36% on the back of a record take-up of our Orange Everyday payment account.

Total loans and savings both increased faster than system at 10%, driving an underlying earnings increase of 10%. Statutory net profit after tax at $295m, was down 6% on account of one-off loan portfolio and liquid asset sales in 2015.

We ended the year with more than $53bn in assets, and are now Australia's 5th largest retail bank in household balances and mortgages.

In 2016, ING in Australia supported another 13 social enterprises in launching, growing and scaling their business via the Dreamstarter program, with a total of 60 social enterprises supported overall since the program's inception.

ING Group was named the world's most sustainable bank by Sustainalytics. We also improved our standing in the Dow Jones Sustainability Indices annual review, climbing 5% to score 90 out of 100 – making us one of the highest scoring companies in the banking sector globally.

Our customers

At ING in Australia, fair value and an exceptional customer experience are at the heart of our business. We believe our culture is our unique differentiator, and are proud that in our latest workplace culture survey (September 2016), 90% of our staff agreed the bank is committed to improving the customer experience, and 94% believed the bank is highly regarded by our customers.

Primary Banking Relationships

Our goal is to become our customers' primary bank by providing products and services that make it easy for them to take control of their finances.

In 2016, we continued to focus on ways to create a seamless customer experience across all our digital channels in line with our customers' growing preference for mobile interaction and banking 'on the go.'

We crossed 500,000 Orange Everyday payment accounts, and more than 244,000 customers are now using us as their main financial institution.

Customer advocacy

Customer advocacy and the feedback we receive from our customers is of prime importance. Last year, we redesigned our digital platform in conjunction with 16,000 customers.

More than 50% of new Orange Everyday accounts were as a result of referrals from family and friends, and we are proud that ING in Australia maintained its industry leading Net Promoter Score (how likely a customer is to recommend us) in 2016.

"Being able to open an account online quickly and without fuss is great. I was pleasantly surprised how easy it was, and am happy to say I've moved all my banking to ING."

Digital investments

We aim to give customers financial control by making it easy for them to do their banking – anytime, anywhere and on any device. We strive to give them the information and tools they need to make smart financial decisions and build a sustainable financial future.

Over the past year, we implemented the following innovations to help empower our customers and enhance their experience with us.

An enhanced digital experience

In May 2016, we enhanced the way we interact and communicate with our customers by redesigning our digital platform.

We can now ensure they have a personalised experience with us at every touchpoint. This includes an individual customised dashboard when they log into their account.

Feedback from our customers, who helped us design our digital platform, enables us to create a seamless end to end experience across all digital channels.

Easier home loan processes

Our new home loan portal now makes it easier for our customers to apply online for a home loan anytime, anywhere, and reduces the pain points typically associated with the process.

Customers are able to upload documents digitally, rather than emailing or posting them, and are kept informed with the progress of their application via their chosen channel, including receiving reminders for outstanding tasks.

This has resulted in a 50% reduction in processing time per loan and improved customer communications, including automated messaging at key milestones.

Insurance

On 30 September, we entered the insurance space with the launch of home and contents cover to new home loan customers.

Reflecting our focus on agile innovation and delivery, the product was built and released in under 90 days – an example of our agile strategy in action.

Wholesale Banking

ING in Australia provides corporate lending across the utilities, infrastructure, telecommunications and natural resources sectors, as well as real estate finance, leveraging the expertise of ING Group for national and international clients.

In 2016, the bank was part of the syndicate that provided financing in support of the Ausgrid acquisition, which was the largest Australian M&A deal of 2016 and winner of the PFI Awards Asia-Pacific M&A Deal of the Year.

Our distribution partners

At ING in Australia, we believe brokers are critical to a healthy and competitive mortgage market. They are true advocates for choice, helping people navigate the journey to securing a loan and, more importantly, securing a home.

ING in Australia was ranked number one by brokers in 2016, for the fifth year in a row, in *The Adviser Third Party Banking Report – Non Major Lenders*.

The successful relationship between us and our broker partners is built on a shared purpose: helping people stay a step ahead in life and in business. ING in Australia continues to evolve the sales and support network around the needs of brokers – and our structure supports an industry leading broker and customer experience.

Our people

At ING in Australia we know that the passion, energy and dedication of our people is integral to executing our strategy and delivering an exceptional customer experience.

We're dedicated to being a great place to work and giving people the opportunity to fulfil their potential.

Diversity & inclusion

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 and helps to improve our business results.

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.

The Orange Code

At ING in Australia we live by the 'Orange Code' – a set of values and behaviours that underpin our culture and influence the way we do things. We strive to be honest, prudent and responsible. We also strive to take on challenges and make things happen; help others be successful; and always stay a step ahead.

We promote a progressive workplace that offers the opportunity to take on new challenges and pursue personal growth in an open, dynamic environment.

Our latest workplace and culture survey indicated that we have a strong foundation upon which to build, with an 82% overall sustainable engagement score as of September 2016. In addition, 89% of people said they are proud to work for ING Group; 90% believe strongly in the goals and objectives of the bank; and 95% say they are willing to work beyond what is required to help the bank succeed.

Our community

Making an impact within our local community is a key strand of our sustainable approach to doing business. Over the past year, we have continued developing community partnerships that align closely with our strategy and sustainability focus areas: sustainable transitions and financial empowerment.

Dreamstarter

ING in Australia's Dreamstarter initiative supports start-up social enterprises with capacity building and funding to help them create a sustainable impact in our community.

Now in its third year, Dreamstarter has helped over 60 social enterprises across Australia to launch, grow and scale their businesses through crowdfunding support, grants and bursaries for capacity building learning programs.

In 2016, 13 social enterprises crowdfunded almost $300,000 via the Dreamstarter platform, nearly two-thirds of which came from our customers and the wider community.

Cerebral Palsy Alliance

In the community, our long-standing partnership with Cerebral Palsy Alliance aims to financially empower young people with a disability.

In 2016, approximately half of our employees participated in Cerebral Palsy Alliance's Steptember fundraising campaign, making us one of the leading corporate fundraisers in Australia for the 5th year in a row.

ING in Australia continues to support Cerebral Palsy Alliance's Ignition Mentoring program, whereby our staff volunteers mentor young adults with a disability over the course of a year to help them gain confidence, independence and self-esteem.

We also support the Cerebral Palsy Alliance Transition to Work program which helps young adults with a disability to improve their work-readiness and employability skills through workshops, mentoring and one to one support.

Volunteering

In 2016, we created a week of volunteering at ING in Australia to align with National Volunteer Week, giving our time to a number of different not-for-profits in addition to our existing community partnerships.

We give our staff an annual 'Impact Day' – a day where they can take time out of the office to support our community partners – to participate in volunteering during the year.

Summary and outlook for 2017

Helping our customers get ahead in life and in business is our purpose and our priority.

In 2017, we remain focused on scaling our digital capability across products and services to deliver a seamless experience for our customers. We believe that innovating in line with our customers preferences, for digitalisation will contribute to the longer term sustainability of the bank.

We are committed to continually adding value for our customers by empowering and enabling them to achieve their goals. Our ambition is to become our customers' main financial institution by making it easy for them to manage their money, and in doing so help them achieve financial wellbeing now and for the future.

UDAY SAREEN
Chief Executive Officer,
ING Bank (Australia) Limited

Our approach to sustainability reporting

As a purpose-driven business, sustainability is integral to the way ING in Australia operates. This includes good governance; offering fair products and services; maintaining our reputation as a top employer; and building a strong community in which we can all get ahead.

We believe it is important to report on the topics that our stakeholders care about, and be open and transparent about our approach and the choices we make.

Our Sustainability Reporting covers the material issues identified by our stakeholders and is compiled in accordance with the Global Reporting Initiative (GRI). A document providing links to information relevant to the GRI is available here.

Our approach to materiality

ING in Australia has a range of mechanisms for listening to and acting on the views of stakeholders including (but not limited to) global stakeholder surveys, customer feedback systems, mortgage broker roadshows, staff engagement surveys and regular meetings with industry regulators.

Input from these stakeholders was used to identify key material issues to be addressed in our Sustainability Reporting. Senior representatives from across the business, including the Executive Committee, prioritised these issues according to their importance to stakeholders and their impact on the business. *Read more about our materiality process*.

Below are the material issues identified by our stakeholders, ING in Australia's approach to these issues and our performance against internal targets:

1. Financially empower our customers by offering fair & transparent products & services available anywhere, anytime

ING in Australia is committed to ensuring our customers have ready access to their money, as well as the information and services they need to manage their money, when and where they need it. We also recognise the importance of ensuring our customers can trust that their money and their personal information are secure with us.

We believe that trust and accessibility are integral to helping our customers improve their personal finance management and enables them to make better financial decisions both now and in the future.

- ***Confidence & trust earned through fair pricing for products & services***

Product and service related pricing decisions have a direct impact on customer satisfaction. By offering long term value to our customers and placing them at the centre of all decision-making, ING in Australia continues to attract the highest Net Promoter Score of any Australian Bank.

How we measure: Our target is to have the number 1 Net Promoter Score (NPS) across the industry.
How we did in 2016: ING in Australia maintained its number 1 Net Promoter Score (NPS) ranking.

- ***Responsible lending & bad debt prevention***

ING in Australia is committed to responsible lending practices. We have a number of policies in place to ensure we provide customers with the appropriate type and level of debt. *Read more about our approach to responsible lending.*

How we measure: We aim to have our default rates below industry benchmarks.
How we did in 2016: ING in Australia's customer default rates have remained consistently below industry benchmarks in 2016.

▪ ***System availability, data security and digital innovation***

System availability

We place a high priority on both maintaining services and protecting customer data. ING in Australia maintains two data centres and can switch operations between the two in case of any issue. This enables us to deliver a high level of service availability to our customers.

How we measure: Our target is 99.9% availability of all data services to customers.
How we did in 2016: We have achieved 99.9% average availability in 2016.

Data security

At ING in Australia, digital banking security and the continuity of our online services are our top priorities. Our specialists focus continually on optimising our systems and processes. Despite the effort we put into the security of our systems, vulnerabilities can still be present. *Read more*

How we measure: Globally, ING Group has implemented a Responsible Disclosure program with the other major banks through the Dutch Banking Association. Following the launch of the program, ING in Australia has actively supported this process and reports against the number of reported vulnerabilities that are actioned by the business.
How we did in 2016: 97% of reported vulnerabilities in 2016 have been remediated.

Digital innovation

Customers at ING in Australia are the most digitally engaged of any Australian bank (RFI data 2015), with 73% of all transactions today completed on mobile devices. In 2016, ING in Australia launched a new digital platform that uses advanced data analytics and content management tools to create a simple, personalised and easy to use platform that meets our customers' financial needs. This initiative represented the largest single investment ING in Australia has ever made.

2. Help our people be their best

▪ ***Talent attraction and retention***

Financial institutions face constant competition for skilled employees. The ability to attract and retain employees is increasingly important, particularly where innovation is critical to the business strategy. To respond to this, ING in Australia provides opportunities for global mobility, professional development, an active wellbeing program, a global Innovation Bootcamp and has developed a specialist Human Resources team to ensure the business is attracting the right capabilities to deliver on its long term strategy. *Read more about our approach to talent attraction and retention.*

How we measure: We aim for 85% staff engagement. This measures the extent to which our staff feel passionate about their jobs, are committed to the organisation, and put discretionary effort into their work. We measure this via an independent and anonymous Biannual Staff Engagement Survey.

How we did in 2016: 82% staff engagement in 2016

3. Helping to build a strong community

▪ ***Financial empowerment***

ING in Australia's business model, commitment to fairness and value, and our conservative approach to lending support accessibility to banking services for all Australians. We have an ongoing commitment to improvement, to ensure we always deliver fair products and services to our customers, and any potential customers, anytime, anywhere. *Read more about our approach to financial empowerment*

In addition, in 2016, ING in Australia's community investment strategy focused on two key areas:

1. Financial empowerment of families with a child with a disability via a partnership with Cerebral Palsy Alliance.
2. Financial empowerment of social enterprises that have the potential to create sustainable impact in our community via the Dreamstarter initiative.

Read more about our community investment strategy

▪ *Environmental footprint*

We believe that climate change is one of the biggest global challenges of our time. It affects not only the environment but societies and economies around the world. At ING Group, we understand that our activities impact the environment we operate in – both directly, through the operations of our buildings, IT systems and business travel, but also indirectly, through our financing portfolio and through our procurement supply chains. ING in Australia is aligned to ING Group on our environmental approach.

Environmental & Social Risks (ESR): ING Group integrates sustainability considerations and objectives in its business strategies and actively manages ESR from its business engagements. In doing so, we mitigate risks and contribute to positive change as we support clients to seek continuous improvement in environmental and social practices.

Equator Principles (EP): As an Equator Principles Financial Institution (EPFI) we do not provide project finance or project-related corporate loans to clients that are unable or choose not to comply with the principles. We also implement EP in our internal environmental and social policies, procedures and standards.

Sustainable Transitions Financed (STF): STF describes all the business that ING Group does with clients that are environmental trend setters in their sectors and projects that provide sustainable solutions. Our global ambition is to increase our financing of sustainable transitions to €35bn by 2020.

Read more about sustainable transitions, environmental and social risk management and our approach to the Equator Principles.

Direct Impacts: ING in Australia actively tracks and reports our direct impact on the environment through our water and energy consumption, the waste we produce and other activities such as air travel and paper use.

Directors' report

The Directors of the Group submit their report, together with the financial report of ING Bank (Australia) Limited ("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;
- IDOL Trust Series 2015-1; and
- IDOL Trust Series 2016-1

for the year ended 31 December 2016.

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, B.Comm (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, B.A.
Ms Lacaze was appointed Director in May 2011. Ms Lacaze is a member of the Audit, Risk and Remuneration & Nomination Committees.

John Masters, B.Comm (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, B.A.
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, B.A. (Hons), Chief Executive Officer
Mr Richtor was appointed Director in February 2010 and resigned on 22 June 2016. On 1 August 2012, Mr Richtor was appointed Chief Executive Officer and resigned on 1 June 2016.

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

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

Uday Sareen, M.Sc (Hons), B.Eng (Hons), MBA, Chief Executive Officer
On 1 June 2016, Mr Sareen was appointed Chief Executive Officer. Mr Sareen was appointed Director on 22 June 2016.

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. 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	5
V Richtor	3	3
M Newman	5	5
A Bogdaneris	5	2
U Sareen	3	3

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	5	5	5	3	3
M Newman	5	5	5	5	3	3
A Bogdaneris	5	2	5	2	N/A	N/A

* R&N Committee - Remuneration & Nomination Committee

Corporate structure

ING Bank (Australia) Limited, trading as ING DIRECT, is a company incorporated and domiciled in Australia. The registered office and principal place of business of the Bank is Level 28, 60 Margaret Street, Sydney NSW 2000. Its ultimate parent entity is ING Groep N.V. incorporated in the Netherlands.

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's year in review. There have been no significant changes in the nature of those activities during the year.

Employees

The Group employed 1,130 permanent employees as at 31 December 2016 (2015: 1,056 permanent employees).

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

Significant events after the balance date

On 15 March 2017, the directors of the Group made a dividend payment in respect of the 2016 financial year. The total amount of the dividend payment was $100 million (2015: $300 million) to ING Bank N.V., the parent. This represents a fully-franked dividend of 7.4 cents per share (2015: 22.5 cents per share).

Other than the matter mentioned above, no subsequent events have occurred since the year ended 31 December 2016, or are pending, that would have a material effect on the financial statements.

Likely developments and expected results

Further information on our business strategies and prospects for future financial years and likely developments in our operations and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Rounding

In compliance with ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 all amounts in this report have been rounded to the nearest one million dollars, unless otherwise stated.

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 only when it is 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 KPMG as presented on the following page.

Signed in accordance with a resolution of the Directors.

Michael Katz
Chairman

Uday Sareen
Director

Sydney
16 March 2017

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of ING Bank (Australia) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

KPMG

John Teer
Partner

Sydney
16 March 2017

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 advise 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 reviewing 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 Orange Code; 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-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 the approved risk appetite and complexity of the Bank's business model. The Risk Committee formulates the Bank's risk appetite for 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 the Australian Securities and Investment Commission ("ASIC") and Australian Prudential Regulation Authority ("APRA")) on behalf of the Group, when requested.

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. regulatory and governance bodies, satisfying the expectations of shareholders and 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 2016

		Consolidated		Bank	
amounts in millions of dollars	Note	2016	2015	2016	2015
Interest income		2,021	2,082	2,179	2,280
Interest expense		(1,318)	(1,446)	(1,509)	(1,674)
Net interest income		703	636	670	606
Net non-interest income / (expense)		(10)	51	23	85
Total operating income	3	**693**	**687**	**693**	**691**
Employment expenses		(141)	(126)	(141)	(126)
Advertising expenses		(39)	(40)	(39)	(40)
Depreciation and amortisation expenses		(23)	(20)	(23)	(20)
Occupancy expenses		(16)	(14)	(16)	(14)
Technology expenses		(12)	(11)	(12)	(11)
Management expenses		(12)	(9)	(12)	(9)
Fee expenses		(7)	(6)	(5)	(4)
Other expenses		(23)	(19)	(23)	(19)
Total operating expenses		**(273)**	**(245)**	**(271)**	**(243)**
Loan impairment benefit / (expense)	9	(7)	1	(7)	1
Operating profit before tax		**413**	**443**	**415**	**449**
Income tax expense	4	(118)	(128)	(119)	(128)
Profit for the year		**295**	**315**	**296**	**321**
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	14	(1)	(58)	(1)	(58)
(Gains) / losses transferred to the income statement		8	25	8	25
Net gains / (losses) on available for sale financial assets		7	(33)	7	(33)
Cash flow hedges					
Gains / (losses) arising during the year	14	71	29	71	29
(Gains) / losses transferred to the income statement		(38)	(30)	(38)	(30)
Net gains / (losses) on cash flow hedges	8	33	(1)	33	(1)
Total amount recognised directly in equity		**40**	**(34)**	**40**	**(34)**
Total Comprehensive Income		**335**	**281**	**336**	**287**

Financial Statements
Balance sheets

as at 31 December 2016

		Consolidated		Bank	
amounts in millions of dollars	Note	2016	2015	2016	2015
Assets					
Cash and cash equivalents	5	840	709	669	491
Due from other financial institutions	6	223	351	280	433
Available for sale financial assets	7	4,166	4,853	4,166	4,853
Derivative assets	8	51	53	28	15
Receivables and other assets		170	155	150	149
Loans and advances	9	47,823	43,594	47,823	43,594
Amounts due from controlled entities		-	-	6,733	6,721
Deferred tax asset	4	40	60	32	60
Property, plant and equipment		127	91	127	91
Intangible assets		8	2	8	2
Total assets		**53,448**	**49,868**	**60,017**	**56,409**
Liabilities					
Deposits and other borrowings	10	45,694	42,013	45,814	42,216
Derivative liabilities	8	293	358	291	355
Creditors and other liabilities		352	315	347	309
Current tax liabilities		1	-	1	-
Provisions	11	121	318	121	318
Deferred tax liabilities	4	63	53	56	48
Debt issues	12	3,187	3,311	-	-
Amounts due to controlled entities		-	-	9,647	9,661
Total liabilities		**49,711**	**46,368**	**56,277**	**52,907**
Net assets		**3,737**	**3,500**	**3,740**	**3,502**
Equity					
Contributed equity	13	1,334	1,334	1,334	1,334
Reserves	14	107	67	107	67
Retained earnings		2,296	2,099	2,299	2,101
Total equity		**3,737**	**3,500**	**3,740**	**3,502**

Financial Statements
Statements of Changes in Equity

for the year ended 31 December 2016

amounts in millions of dollars	Note	Contributed Equity 13	Reserves 14	Retained earnings	Total equity
Consolidated					
As at 1 January 2016		1,334	67	2,099	3,500
Profit for the year		-	-	295	295
Other comprehensive income		-	40	-	40
Total comprehensive income		**-**	**40**	**295**	**335**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	(100)	(100)
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	2	-	2
As at 31 December 2016		**1,334**	**107**	**2,296**	**3,737**
As at 1 January 2015		1,334	98	2,085	3,517
Profit for the year		-	-	315	315
Other comprehensive income		-	(34)	-	(34)
Total comprehensive income		**-**	**(34)**	**315**	**281**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	(300)	(300)
Transfers	14	-	1	(1)	-
Share based payment plan	14	-	2	-	2
As at 31 December 2015		**1,334**	**67**	**2,099**	**3,500**
Bank					
As at 1 January 2016		1,334	67	2,101	3,502
Profit for the year		-	-	296	296
Other comprehensive income		-	40	-	40
Total comprehensive income		**-**	**40**	**296**	**336**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	(100)	(100)
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	2	-	2
As at 31 December 2016		**1,334**	**107**	**2,299**	**3,740**
			-		
As at 1 January 2015		1,334	98	2,081	3,513
Profit for the year		-	-	321	321
Other comprehensive income		-	(34)	-	(34)
Total comprehensive income		**-**	**(34)**	**321**	**287**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	(300)	(300)
Transfers	14	-	1	(1)	-
Share based payment plan	14	-	2	-	2
As at 31 December 2015		**1,334**	**67**	**2,101**	**3,502**

Financial Statements
Cash Flow Statements

for the year ended 31 December 2016

		Consolidated		Bank	
amounts in millions of dollars	Note	2016	2015	2016	2015
Cash flows from operating activities					
Operating profit before tax		413	443	415	449
Adjustments for:					
Depreciation and amortisation expenses		23	20	23	20
Loan impairment expense / (benefit)		7	(1)	7	(1)
Other		64	(40)	68	(41)
Taxes paid		(105)	(145)	(105)	(145)
Changes in:					
Loans and advances		(4,236)	(1,831)	(4,236)	(1,832)
Derivatives		(63)	(98)	(76)	(101)
Receivables and other assets		(15)	63	(1)	42
Creditors and other liabilities		37	(79)	38	(77)
Deposits and other borrowings		3,586	687	3,476	361
Net cash flows used in operating activities		**(289)**	**(981)**	**(391)**	**(1,325)**
Cash flows from investing activities					
Payments for other available for sale financial assets		(2,133)	(3,085)	(2,133)	(3,085)
Payments for property, plant and equipment		(66)	(64)	(66)	(64)
Proceeds from sale of other available for sale financial assets		2,011	3,352	2,011	3,352
Proceeds from redemption of other available for sale financial assets		1,457	1,130	1,457	1,130
(Net payments) / proceeds from discount securities		(648)	1,096	(648)	1,096
Net cash flows from investing activities		**621**	**2,429**	**621**	**2,429**
Cash flows from financing activities					
Proceeds from other long term financing		13,067	13,994	13,067	13,995
Proceeds from debt issued		970	750	-	-
Repayment of other long term financing		(12,972)	(14,441)	(12,972)	(14,441)
Repayment of debt issued		(1,094)	(1,593)	-	(386)
Dividends paid		(300)	(275)	(300)	(275)
Net cash flows used in financing activities		**(329)**	**(1,565)**	**(205)**	**(1,107)**
Net cash flows		3	(117)	25	(3)
Cash and cash equivalents at beginning of year[1]		1,060	1,177	924	927
Cash and cash equivalents at end of year[1]	5 & 6	**1,063**	**1,060**	**949**	**924**

[1] For the purposes of the Cash Flow Statement, cash and cash equivalents include 'cash and cash equivalents' at note 5 and 'due from other financial institutions' at note 6.

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 28, 60 Margaret 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 2016 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, IDOL Trust Series 2015-1 and IDOL Trust Series 2016-1 (collectively referred to as "the Group"). The financial report was authorised for issue in accordance with a resolution of the Directors on 16th March 2017.

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. In compliance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, all values are rounded to the nearest one million dollars, 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
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. *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.
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.

3. Operating income

	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Interest income				
Cash and cash equivalents	12	15	11	11
Due from other financial institutions	7	15	7	15
Available for sale financial assets	133	190	133	190
Loans and advances	1,848	1,834	1,848	1,834
Amounts due from controlled entities	-	-	163	199
Derivative assets	21	28	17	31
Total interest income	**2,021**	**2,082**	**2,179**	**2,280**
Interest expense				
Deposits	1,093	1,211	1,098	1,217
Debt issues	107	114	-	4
Derivative liabilities	118	121	109	111
Amounts due to controlled entities	-	-	302	342
Total interest expense	**1,318**	**1,446**	**1,509**	**1,674**
Net interest income	**703**	**636**	**670**	**606**
Non-interest income / (expense)				
Account fees	40	28	40	27
Net commission expense	(4)	(4)	(4)	(4)
Customer transaction costs	(50)	(37)	(50)	(37)
Gain from sale of available for sale financial assets	2	20	2	20
Securitisation income	-	-	30	32
Gain from sale of loans	-	47	-	47
Other non-interest income/(expense)	2	(3)	5	-
Net non-interest income/(expense)	**(10)**	**51**	**23**	**85**
Total operating income	**693**	**687**	**693**	**691**

Income and expense recognition – Accounting policy

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.

Fee income earned or expenses incurred which are associated with the origination of loans and advances or financial liabilities are deferred and form part of the amortised cost of the asset or liability and result in an adjustment to the effective interest rate method.

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.

4. Income tax expense

amounts in millions of dollars	Consolidated 2016	Consolidated 2015	Bank 2016	Bank 2015
Income Statement				
Current income tax	106	93	100	98
Deferred income tax	12	35	19	30
Income tax expense reported in Income Statement	**118**	**128**	**119**	**128**
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	14	-	14	-
Revaluation of available for sale financial assets	3	(14)	3	(14)
Income tax expense recognised in other comprehensive income	**17**	**(14)**	**17**	**(14)**
Reconciliation of prima facie income tax expense on accounting profit before income tax expense:				
Operating profit before tax	413	442	415	449
Prima facie income tax on operating profit at 30% (2015: 30%)	124	133	125	135
Income Tax (over)/under provided in prior years	(4)	(1)	(4)	(1)
Effects of amounts which are not (assessable)/deductible	(2)	(4)	(2)	(6)
Income tax expense reported in Income Statement	**118**	**128**	**119**	**128**

Deferred income tax	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
amounts in millions of dollars	2016	2015	2016	2015	2016	2015	2016	2015
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	41	34	7	7	41	35	7	7
Depreciation and amortisation expenses	15	12	3	11	15	12	3	11
Revaluation of derivatives	7	4	3	4	-	-	-	-
Other	-	3	(3)	1	-	1	(1)	-
Total deferred tax liabilities	**63**	**53**			**56**	**48**		
Deferred tax assets								
Provisions for impairment	5	8	3	4	5	8	3	4
Revaluation of available for sale financial assets	1	11	7	-	1	11	7	-
Revaluation of cash flow hedge	14	28	-	-	14	28	-	-
Accrued expenses	4	5	1	7	4	5	1	7
Provisions	6	6	(1)	-	6	6	(1)	-
Other	10	2	(8)	1	2	2	-	1
Total deferred tax assets before set- off	**40**	**60**			**32**	**60**		
Net deferred tax assets / (liabilities)	**(23)**	**7**			**(24)**	**12**		
Deferred income tax charge			**12**	**35**			**19**	**30**

4. Income tax expense (continued)

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 2016 is 28.6% (2015: 29.0%).

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 ING Bank (Australia) Limited's controlled entities. 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 and ING Real Estate Investment Management Australia Pty Limited.

5. Cash and cash equivalents

	Consolidated		Bank	
amounts in millions of dollars	**2016**	2015	**2016**	2015
Cash and liquid assets	309	359	302	354
Cash equivalents held by other financial institutions	531	350	367	137
Total cash and cash equivalents	**840**	**709**	**669**	**491**

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.

6. Due from other financial institutions

	Consolidated		Bank	
amounts in millions of dollars	**2016**	2015	**2016**	2015
Cash collateral	223	351	280	433
Total due from other financial institutions	**223**	**351**	**280**	**433**

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.

7. Available for sale financial assets

amounts in millions of dollars	Consolidated 2016	Consolidated 2015	Bank 2016	Bank 2015
Discount securities	749	100	749	100
Corporate bonds	379	656	379	656
Covered bonds	332	433	332	433
Government bonds	2,704	3,661	2,704	3,661
Mortgage-backed securities	2	3	2	3
Total available for sale financial assets	**4,166**	**4,853**	**4,166**	**4,853**
Maturity analysis of available for sale financial assets				
Not longer than 3 months	1,108	169	1,108	169
Longer than 3 months and not longer than 1 year	323	1,284	323	1,284
Longer than 1 year and not longer than 5 years	1,410	1,887	1,410	1,887
Longer than 5 years	1,325	1,513	1,325	1,513
Total available for sale financial assets	**4,166**	**4,853**	**4,166**	**4,853**

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. All purchases and sales 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.

8. Derivatives

Consolidated	2016			2015		
amounts in millions 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	2,407	1	(219)	2,842	1	(247)
Total fair value hedges	**2,407**	**1**	**(219)**	**2,842**	**1**	**(247)**
Derivatives designated as cash flow hedges						
Interest rate swaps	22,697	25	(72)	16,501	12	(106)
Total cash flow hedges	**22,697**	**25**	**(72)**	**16,501**	**12**	**(106)**
Other derivatives						
Cross currency swap	48	21	-	79	34	-
Basis swaps	1,348	-	-	1,252	-	-
Interest rate swaps	715	4	(2)	1,458	6	(5)
Total other derivatives	**2,111**	**25**	**(2)**	**2,789**	**40**	**(5)**
Total recognised derivative assets / (liabilities)	**27,215**	**51**	**(293)**	**22,132**	**53**	**(358)**

8. Derivatives (continued)

Bank	2016			2015		
amounts in millions 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	2,407	1	(219)	2,842	1	(247)
Total fair value hedges	**2,407**	**1**	**(219)**	**2,842**	**1**	**(247)**
Derivatives designated as cash flow hedges						
Interest rate swaps	22,697	25	(72)	16,501	12	(106)
Total cash flow hedges	**22,697**	**25**	**(72)**	**16,501**	**12**	**(106)**
Other derivatives						
Basis swaps	674	-	-	626	-	-
Interest rate swaps	307	2	-	679	2	(2)
Total other derivatives	**981**	**2**	**-**	**1,305**	**2**	**(2)**
Total recognised derivative assets / (liabilities)	**26,085**	**28**	**(291)**	**20,648**	**15**	**(355)**

	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Maturity analysis for derivative assets				
Longer than 3 months and not longer than 1 year	3	2	1	-
Longer than 1 year and not longer than 5 years	44	48	23	12
Longer than 5 years	4	3	4	3
Total derivative assets	**51**	**53**	**28**	**15**

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.

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.

8. Derivatives (continued)

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, the ineffectiveness on 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 millions of dollars	**2016**	2015	**2016**	2015
Fair value of hedge instruments	(47)	(94)	(47)	(94)
Amount recognised in other comprehensive income during the period (net of tax)	33	(1)	33	(1)

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 millions of dollars	**2016**	2015	**2016**	2015
Fair value of hedge instruments	(218)	(245)	(218)	(245)
Current year gains / (losses) on hedging instruments	26	96	26	96
Fair value of hedged items	2,620	3,071	2,620	3,071
Current year gains / (losses) on hedged items attributable to the hedged risk	(26)	(96)	(26)	(96)
Net hedge ineffectiveness	-	-	-	-

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.

The Group does not have any financial assets or liabilities which are offset on the face of the balance sheet in accordance with *AASB 132 Financial Instruments: Presentation.*

8. Derivatives (continued)

Consolidated	Effects of offsetting on the balance sheet			Related amounts not offset		
amounts in millions of dollars	Gross amount	Amounts set-off in the balance sheet	**Amount presented in the balance sheet**	Amount subject to master netting arrangements	Financial instrument collateral	**Net Amount**
31 December 2016						
Financial assets						
Derivative financial instruments	51	-	51	(28)	(8)	15
Total	**51**	**-**	**51**	**(28)**	**(8)**	**15**
Financial liabilities						
Derivative financial instruments	(293)	-	(293)	28	223	(42)
Total	**(293)**	**-**	**(293)**	**28**	**223**	**(42)**
31 December 2015						
Financial assets						
Derivative financial instruments	53	-	53	(49)	(5)	(1)
Total	**53**	**-**	**53**	**(49)**	**(5)**	**(1)**
Financial liabilities						
Derivative financial instruments	(358)	-	(358)	49	351	42
Total	**(358)**	**-**	**(358)**	**49**	**351**	**42**

Bank	Effects of offsetting on the balance sheet			Related amounts not offset		
amounts in millions of dollars	Gross amount	Amounts set-off in the balance sheet	**Amount presented in the balance sheet**	Amount subject to master netting arrangements	Financial instrument collateral	**Net Amount**
31 December 2016						
Financial assets						
Derivative financial instruments	28	-	28	(28)	(8)	(8)
Total	**28**	**-**	**28**	**(28)**	**(8)**	**(8)**
Financial liabilities						
Derivative financial instruments	(291)	-	(291)	28	223	(40)
Total	**(291)**	**-**	**(291)**	**28**	**223**	**(40)**
31 December 2015						
Financial assets						
Derivative financial instruments	15	-	15	(14)	(5)	(4)
Total	**15**	**-**	**15**	**(14)**	**(5)**	**(4)**
Financial liabilities						
Derivative financial instruments	(355)	-	(355)	14	351	10
Total	**(355)**	**-**	**(355)**	**14**	**351**	**10**

9. Loans and advances

	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Residential loans	41,406	38,655	41,406	38,655
Business loans	3,440	2,954	3,440	2,954
Wholesale loans	2,993	2,013	2,993	2,013
Gross loans and advances	**47,839**	**43,622**	**47,839**	**43,622**
Specific provision for impairment	(10)	(20)	(10)	(20)
Collective provision for impairment	(6)	(8)	(6)	(8)
Total loans and advances	**47,823**	**43,594**	**47,823**	**43,594**
Maturity analysis of loans and advances				
Not longer than 3 months	146	183	146	183
Longer than 3 months and not longer than 1 year	628	408	628	408
Longer than 1 year and not longer than 5 years	3,592	2,836	3,592	2,836
Longer than 5 years	42,630	39,448	42,630	39,448
No maturity specified	843	747	843	747
Gross loans and advances	**47,839**	**43,622**	**47,839**	**43,622**

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.

Provision for impairment	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Specific provisions				
Opening balance	20	31	20	31
Net movement in provision	9	1	9	1
Sub-total	**29**	**32**	**29**	**32**
Bad debts written off	(19)	(12)	(19)	(12)
Closing balance – specific provisions	**10**	**20**	**10**	**20**
Collective provisions				
Opening balance	8	10	8	10
Net movement in provision	(2)	(2)	(2)	(2)
Closing balance – collective provisions	**6**	**8**	**6**	**8**
Total provision for impairment	**16**	**28**	**16**	**28**

Loan impairment benefit/(expense)	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Income Statement				
Specific provision	(5)	(1)	(5)	(1)
Collective provision	(2)	2	(2)	2
Total loans loss benefit/(expense)	**(7)**	**1**	**(7)**	**1**

9. Loans and advances (continued)

For the year ended 31 December 2016 the Group recognised $7 million in loan loss provisions expense (2015: $1 million in loan loss provisions benefit).

The loan loss provisions expense for the year is primarily attributable to a $3 million expense in the individual specific provision on the commercial portfolio and $2 million expense on the retail portfolio. In addition, there was a release of $2 million in collective provisions on the overall portfolio.

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 emergence period' to default probabilities. The loss emergence 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 emergence 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.

10. Deposits and other borrowings

	Consolidated		Bank	
amounts in millions of dollars	**2016**	2015	**2016**	2015
Deposits				
Deposits at call	23,279	22,032	23,400	22,235
Term deposits[1]	21,746	19,453	21,745	19,453
Certificates of deposits	273	238	273	238
Securities sold under agreement to repurchase	396	290	396	290
Deposits and other borrowings	**45,694**	**42,013**	**45,814**	**42,216**
Concentration of deposits				
Retail deposits	26,851	24,281	26,851	24,281
Business deposits	9,867	9,055	9,867	9,055
Wholesale deposits	8,976	8,677	9,096	8,880
Total deposits	**45,694**	**42,013**	**45,814**	**42,216**

[1] Term deposits include funding from ING Bank N.V. (Sydney Branch) of $7,900 million (2015: $7,800 million).

Deposits and other borrowings – Accounting policy

Deposits and other borrowings include term deposits, at-call deposits, negotiable certificates of deposits and 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.

11. Provisions

	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Annual leave	7	6	7	6
Long service leave	8	7	8	7
Other provisions	6	5	6	5
Provision for dividend	100	300	100	300
Total provisions	**121**	**318**	**121**	**318**
Provisions expected to be paid in the next 12 months	**109**	**308**	**109**	**308**

Movement in provisions	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Carrying amount at beginning of the year	318	292	318	292
Additional provision recognised	112	311	112	311
Amounts utilised during the year	(309)	(285)	(309)	(285)
Carrying amount at end of year	**121**	**318**	**121**	**318**

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.

The provision for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is measured using expected future increases in wage and salary rates including related on-costs and is probability weighted based on observed employee turnover and is discounted using the rates attached to high quality corporate bond rates at reporting date of a similar maturity.

12. Debt issues

	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Mortgage-backed securities	3,187	3,311	-	-
Total debt issues	**3,187**	**3,311**	**-**	**-**

Debt issues – Accounting policy

Debt issues are short and long term debt issues of the Group and medium term notes. 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.

13. Contributed equity

	Consolidated		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Issued and fully paid equity				
Ordinary voting shares	1,284	1,284	1,284	1,284
Ordinary non-voting shares	50	50	50	50
Total contributed equity	**1,334**	**1,334**	**1,334**	**1,334**

	Consolidated		Bank	
	2016	2015	2016	2015
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.

14. Reserves

2016 Consolidated and Bank

amounts in millions of dollars	General reserve for credit losses	Share based payments reserve	Cash flow Hedge Reserve	Available for Sale Reserve	Total
Opening balance	131	11	(66)	(9)	67
Revaluation movement for the year, net of tax	-	2	71	(1)	72
Transferred to Other Comprehensive Income Statement - net interest income	-	-	(54)	-	(54)
Transfer of gains on sale to Other Comprehensive Income - net non-interest income	-	-	-	11	11
Tax on amounts transferred to Other Comprehensive Income Statement	-	-	16	(3)	13
Transfer (to)/from retained earnings	(2)	-	-	-	(2)
Closing balance	**129**	**13**	**(33)**	**(2)**	**107**

2015 Consolidated and Bank

amounts in millions of dollars	General reserve for credit losses	Share based payments reserve	Cash flow Hedge Reserve	Available for Sale Reserve	Total
Opening balance	130	10	(66)	24	98
Revaluation movement for the year, net of tax	-	1	29	(58)	(28)
Transferred to Other Comprehensive Income Statement - net interest income	-	-	(42)	-	(42)
Transfer of gains on sale to Other Comprehensive Income - net non-interest income	-	-	-	36	36
Tax on amounts transferred to Other Comprehensive Income Statement	-	-	13	(11)	2
Transfer (to)/from retained earnings	1	-	-	-	1
Closing balance	**131**	**11**	**(66)**	**(9)**	**67**

14. Reserves (continued)

Reserves – Accounting policy

General reserve for credit losses

The general reserve for credit losses ("GRCL") is an APRA requirement which appropriates amounts 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, business and wholesale 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.

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.

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.

15. 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 • Arrears analysis • Internal ratings models • Stress testing • Financial analysis • Convenant measures • Loan to Value	• 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 • Scenario analysis • Behavioural models • Basis Point Valuation	• 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 • Economic value sensitivity ("EVS")	• 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") • Net Stable Funding Ratio ("NSFR") • Additional liquidity triggers and risk limits • Behavioural models • Basis Point Valuation	• Asset & Liability Management Sub-Policy • Risk Appetite Statement • Treasury – Securitisation Sub-Policy • Risk management Strategy Document
Non-Financial Risk (i.e. operational, compliance and legal risk)	• Inadequate or failed internal processes, people and systems • Failure or perceived failure to comply with relevant laws, regulations, the Group's policies	• Risk and Control self Assessment • Non Financial Risk Score • Incident reporting • Scenario analysis	• Operational Risk Management Framework Sub-Policy • Financial Crimes Sub-Policy • Compliance Framework and Chart Sub-Policy • Conflicts of Interest Sub-Policy • Anti-Bribery and Corruption Sub-Policy • AML/CTF Compliance Progam Sub-Policy • Risk Appetite Statement • Risk Management Strategy Document

15. Risk management (continued)

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*.

The key objectives of the Group's risk management framework are:

- To ensure that the risk management objectives are linked to the Group'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.

Risk Management Strategy

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.

- *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

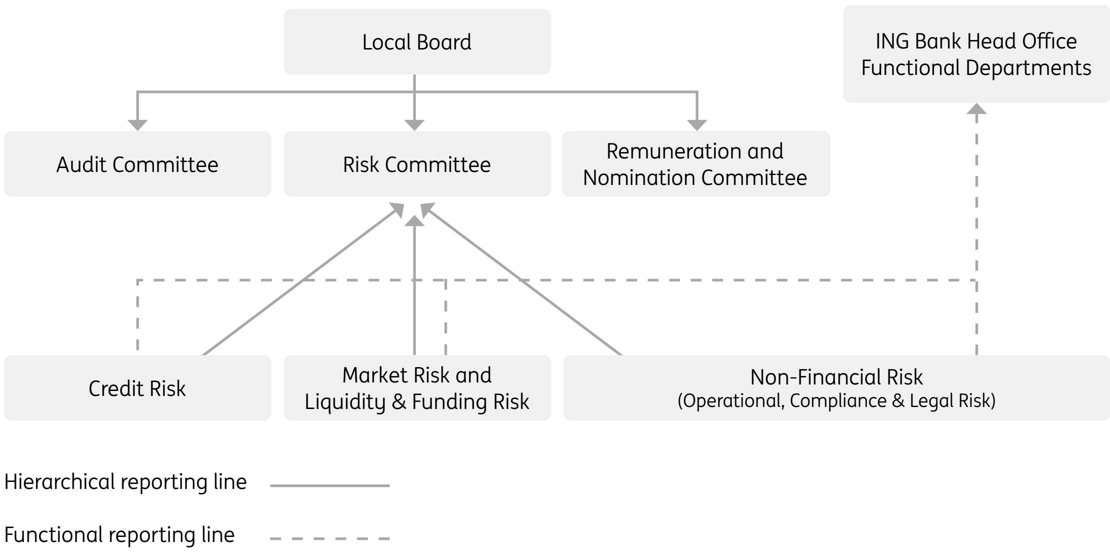
The Group regards risk as a fundamental activity, performed at all levels of the organisation. Accountability for the risk management framework is based on the "three lines of defence" model, whereby ownership for risk is taken at three levels in the organisation. The governance framework reflects our 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) are 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.

15. 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. The F&RC meets at a minimum, on a quarterly basis.

15. 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 2016

			FV of collateral and credit enhancements held						
amounts in millions of dollars	Note	Maximum exposure to credit risk	Cash	Letters of credit/ guarantees	Property	**Total**	Surplus collateral[1]	Net collateral[2]	**Net exposure[3]**
Financial assets									
Cash and cash equivalents	5	840	-	-	-	-	-	-	840
Due from other financial institutions	6	223	-	-	-	-	-	-	223
Receivables and other assets		110	-	-	-	-	-	-	110
Available for sale financial assets	7	4,166	-	-	-	-	-	-	4,166
Loans and advances	9	47,839	-	1,430	80,611	82,041	(34,202)	47,839	-
Derivative assets	8	51	8	-	-	8	(8)	28	23
Total		**53,229**	**8**	**1,430**	**80,611**	**82,049**	**(34,210)**	**47,867**	**5,362**
Off-Balance Sheet									
Undrawn loan commitments	19	7,199	-	-	-	-	-	-	7,199
Bank accepted guarantees	19	79	-	-	-	-	-	-	79
Total maximum credit risk exposure		**60,507**	**8**	**1,430**	**80,611**	**82,049**	**(34,210)**	**47,867**	**12,640**

[1] 'Surplus collateral' represents the fair value of collateral or credit enhancements which exceed the asset balances they secure
[2] 'Net collateral' therefore reflects the balance of secured financial assets
[3] 'Net exposure' represents unsecured financial assets

15. Risk management (continued)

Consolidated 2015

amounts in millions of dollars	Note	Maximum exposure to credit risk	FV of collateral and credit enhancements held: Cash	Letters of credit/ guarantees	Property	**Total**	Surplus collateral[1]	Net collateral[2]	**Net exposure[3]**
Financial assets									
Cash and cash equivalents	5	709	-	-	-	-	-	-	709
Due from other financial institutions	6	351	-	-	-	-	-	-	351
Receivables and other assets		139	-	-	-	-	-	-	139
Available for sale financial assets	7	4,853	-	-	-	-	-	-	4,853
Loans and advances	9	43,622	-	1,012	71,645	72,657	(29,534)	43,123	499
Derivative assets	8	53	5	-	-	5	(5)	49	4
Total		**49,727**	**5**	**1,012**	**71,645**	**72,662**	**(29,539)**	**43,172**	**6,555**
Off-Balance Sheet									
Undrawn loan commitments	19	6,248	-	-	-	-	-	-	6,248
Bank accepted guarantees	19	12	-	-	-	-	-	-	12
Total maximum credit risk exposure		**55,987**	**5**	**1,012**	**71,645**	**72,662**	**(29,539)**	**43,172**	**12,815**

1 'Surplus collateral' represents the fair value of collateral or credit enhancements which exceed the asset balances they secure
2 'Net collateral' therefore reflects the balance of secured financial assets
3 'Net exposure' represents unsecured financial assets

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.

Collateral (amounts in millions of dollars)	Consolidated **2016**	2015
Held against past due but not impaired assets	868	744
Held against impaired assets	149	127

Exposure not mitigated by collateral as a percentage of total financial assets (in percentages)	Consolidated **2016**	2015
Residential loans	0.0%	0.0%
Business loans	0.0%	0.0%
Wholesale loans	1.7%	0.9%
Financial assets other than loans and advances	8.3%	12.3%
Total	**10.0%**	**13.2%**

15. 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		Bank	
amounts in millions of dollars	2016	2015	2016	2015
Neither past due nor impaired	52,476	49,043	59,077	55,539
- of which: Residential loans	40,690	37,997	40,690	37,997
- of which: Business loans	3,428	2,922	3,428	2,922
- of which: Wholesale loans	2,833	1,862	2,833	1,862
- Related entities	135	157	135	157
- Financial assets other than loans and advances	5,390	6,105	11,991	12,601
Past due but not impaired gross loans and advances	636	568	636	568
Impaired loans and advances	117	116	117	116
Total	**53,229**	**49,727**	**59,830**	**56,223**

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		Bank	
S&P Equivalent Rating	**Risk Grading**	2016	2015	2016	2015
AAA	1	2,176	2,886	7,566	8,273
AA	2-4	11,140	10,536	11,231	10,622
A	5-7	4,728	4,790	4,601	4,571
BBB	8-10	21,060	19,074	21,061	19,075
BB	11-13	12,335	10,766	12,335	10,766
B	14-16	1,282	1,219	1,282	1,219
CCC & Problem Grade	17-20	508	456	508	456
Not rated		-	-	1,246	1,241
Total		**53,229**	**49,727**	**59,830**	**56,223**

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.

15. 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	2016		2015	
amounts in millions of dollars	$ millions	%	$ millions	%
Less than 1 payment past due	444	69.8%	401	70.6%
1 payment past due	145	22.8%	124	21.8%
2 payments past due	47	7.4%	43	7.6%
Total	**636**	**100.0%**	**568**	**100.0%**

Impaired loans by economic sector

Consolidated and Bank	2016		2015	
amounts in millions of dollars	$ millions	%	$ millions	%
Private individuals	78	66.7%	90	77.6%
Construction & commercial real estate	1	0.8%	26	22.4%
Corporate	38	32.5%	-	-
Total	**117**	**100.0%**	**116**	**100.0%**

Risk concentration: Group portfolio (by economic sector)

	Consolidated				Bank			
in percentages	2016	%	2015	%	2016	%	2015	%
Construction & commercial real estate	3,977	7.5%	3,333	6.7%	3,977	6.6%	3,333	5.9%
Corporate	2,338	4.4%	1,481	3.0%	2,338	3.9%	1,481	2.6%
Financial institutions	2,152	4.0%	2,118	4.3%	8,753	14.6%	8,663	15.4%
Private individuals	41,401	77.8%	38,635	77.7%	41,401	69.3%	38,586	68.7%
Public administration	3,361	6.3%	4,160	8.4%	3,361	5.6%	4,160	7.4%
Total	**53,229**	**100.0%**	**49,727**	**100.0%**	**59,830**	**100.0%**	**56,223**	**100.0%**

15. 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 8 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.

Interest rate risk analysis

amounts in millions of dollars	2016	2015
EVS		
99th percentile portfolio economic value change plus basis and optionality risk [1]	-58	-78
Limit =≤ $125 (2015: $125)		
EaR		
- 100bps Shock (Year 1)	-40	-51
+ 100bps Shock (Year 1)	40	51
Limit =< $115 (2015: $115)		

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

15. Risk management (continued)

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.

(c) Liquidity and funding risk

Liquidity risk is the risk that the Group cannot meet its financial liabilities as and when they become 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 includes the liquidity coverage ratio ("LCR") that measures the Bank's ability to sustain a 30-day pre-defined liquidity stress scenario. 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 $5,006 million at 31 December 2016 (2015: $5,562 million). The Liquidity coverage ratio at 31 December 2016 was 120% (2015: 116%).

The net stable funding ratio ("NSFR"), due to become effective 1 January 2018, establishes a minimum stable funding requirement based on the liquidity profile of the Bank's assets and off balance sheet activity over a one year horizon. The Group's NSFR is above the regulatory minimum of 100% at balance date and a prudent buffer will be in place by 1 January 2018.

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 2016, approximately 71% of the Group's funding was provided by retail sources (2015: 70%) and 29% was provided by wholesale and other sources (2015: 30%).

15. 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 2016

amounts in millions 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 contractual cashflows
Financial liabilities								
Deposits and other borrowings	45,694	23,287	2,403	4,553	9,496	6,532	65	46,336
Derivative liabilities	293	-	17	25	63	165	36	306
Creditors and other liabilities	352	103	83	65	75	26	1	353
Provision for dividend	100	-	-	100	-	-	-	100
Debt issues	3,187	-	87	552	403	2,290	-	3,332
Total	**49,626**	**23,390**	**2,590**	**5,295**	**10,037**	**9,013**	**102**	**50,427**
Undrawn loan commitments	7,199	-	-	1,676	71	682	4,770	7,199
Bank accepted guarantees	79	79	-	-	-	-	-	79
Total	**56,904**	**23,469**	**2,590**	**6,971**	**10,108**	**9,695**	**4,872**	**57,705**

Bank 2016

amounts in millions 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 contractual cashflows
Financial liabilities								
Deposits and other borrowings	45,814	23,287	2,524	4,553	9,496	6,532	65	46,457
Derivative liabilities	291	-	16	25	62	165	36	304
Creditors and other liabilities	347	103	83	65	69	26	1	347
Provision for dividend	100	-	-	100	-	-	-	100
Debt issues	-	-	-	-	-	-	-	-
Amounts due to controlled entities	9,647	9,647	-	-	-	-	-	9,647
Total	**56,199**	**33,037**	**2,623**	**4,743**	**9,627**	**6,723**	**102**	**56,855**
Undrawn loan commitments	7,199	-	-	1,676	71	682	4,770	7,199
Bank accepted guarantees	79	79	-	-	-	-	-	79
Total	**63,477**	**33,116**	**2,623**	**6,419**	**9,698**	**7,405**	**4,872**	**64,133**

15. Risk management (continued)

Consolidated 2015

amounts in millions 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 contractual cashflows
Financial liabilities								
Deposits and other borrowings	42,013	22,032	1,799	4,933	8,394	5,449	68	42,675
Derivative liabilities	358	-	16	6	93	209	50	374
Creditors and other liabilities	315	-	138	90	53	33	1	315
Provision for dividend	300	-	-	300	-	-	-	300
Debt issues	3,311	-	217	146	848	2,255	-	3,466
Total	**46,297**	**22,032**	**2,170**	**5,475**	**9,388**	**7,946**	**119**	**47,130**
Undrawn loan commitments	6,248	-	1	1,156	96	397	4,598	6,248
Bank accepted guarantees	12	12	-	-	-	-	-	12
Total	**52,557**	**22,044**	**2,171**	**6,631**	**9,484**	**8,343**	**4,717**	**53,390**

Bank 2015

amounts in millions 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 contractual cashflows
Financial liabilities								
Deposits and other borrowings	42,216	22,234	1,799	4,933	8,394	5,449	68	42,877
Derivative liabilities	355	-	15	6	89	208	50	368
Creditors and other liabilities	309	-	133	90	53	33	1	310
Provision for dividend	300	-	-	300	-	-	-	300
Debt issues	-	-	-	-	-	-	-	-
Amounts due to controlled entities	9,661	9,661	-	-	-	-	-	9,661
Total	**52,841**	**31,895**	**1,947**	**5,329**	**8,536**	**5,690**	**119**	**53,516**
Undrawn loan commitments	6,248	-	1	1,156	96	397	4,598	6,248
Bank accepted guarantees	12	12	-	-	-	-	-	12
Total	**59,101**	**31,907**	**1,948**	**6,485**	**8,632**	**6,087**	**4,717**	**59,776**

16. 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.

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.

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 2) 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.

16. Capital management - continued

Capital Adequacy	Consolidated	
amounts in millions of dollars	2016	2015
Qualifying capital		
Tier 1		
Total equity	3,737	3,500
Reserve adjustments	(142)	(142)
Regulatory adjustments	(96)	(38)
Common Equity Tier 1	**3,499**	**3,320**
Additional Tier 1 Capital	-	-
Total Tier 1 qualifying capital	**3,499**	**3,320**
Tier 2		
General reserve for credit losses and collective provisioning	134	134
Total Tier 2 qualifying capital	**134**	**134**
Total regulatory capital	**3,633**	**3,454**
Total risk adjusted assets and off-balance sheet exposures	**28,348**	**25,801**
Capital adequacy ratio	**12.8%**	**13.4%**
Dividend provided for or paid	**2016**	**2015**
Franked dividend for 2016: 7.4 cents per share (2015: 22.5 cents per share)	100	300

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.

17. 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	Derivative assets and liabilities are initially recognised at fair value. Any changes in fair value are recorded in non-interest income with interest income and expense associate with the derivative recognised in net interest income.	The fair value of swaps is calculated by utilising discounted cash flow models, based on the estimated future cash flows.

17. Fair value of financial instruments (continued)

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.
Amounts due from controlled entities	The carrying amount of amounts due from controlled entities is an approximation of fair value.	Short term in nature.
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 fair value is calculated by utilising discounted cash flow models, based on the maturity of the deposits.
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.

17. Fair value of financial instruments (continued)

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.

31 December 2016

			Fair value hierarchy		
amounts in millions of dollars	Carrying value total	Fair value total	Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Available for sale financial assets	4,166	4,166	3,415	750	1
Derivative assets	51	51	-	51	-
Liabilities measured at fair value:					
Derivative liabilities	293	293	-	293	-
Assets for which fair values are disclosed:					
Loans and advances	47,823	47,874			
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	45,694	45,748			
Debt issues	3,187	3,197			
Bank					
Assets measured at fair value:					
Available for sale financial assets	4,166	4,166	3,415	750	1
Derivative assets	28	28	-	28	-
Liabilities measured at fair value:					
Derivative liabilities	291	291	-	291	-
Assets for which fair values are disclosed:					
Loans and advances	47,823	47,874			
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	45,814	45,868			
Debt issues	-	-			

17. Fair value of financial instruments (continued)

31 December 2015

amounts in millions of dollars	Carrying value total	Fair value total	Fair value hierarchy Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Available for sale financial assets	4,853	4,854	4,750	102	2
Derivative assets	53	53	-	53	-
Liabilities measured at fair value:					
Derivative liabilities	358	358	-	358	-
Assets for which fair values are disclosed:					
Loans and advances	43,594	43,669			
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	42,013	42,090			
Debt issues	3,311	3,320			
Bank					
Assets measured at fair value:					
Available for sale financial assets	4,853	4,854	4,750	102	2
Derivative assets	15	15	-	15	-
Liabilities measured at fair value:					
Derivative liabilities	355	355	-	355	-
Assets for which fair values are disclosed:					
Loans and advances	43,594	43,669			
Liabilities for which fair values are disclosed:					
Deposits and other borrowings	42,216	42,292			
Debt issues	-	-			

Transfers between Level 1 and Level 2

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.

17. Fair value of financial instruments (continued)

Quantitative information of significant unobservable inputs – Level 3				Consolidated and Bank
Description	$millions	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities 31 December 2016	1	DCF Method	Weighted Average Life Credit spread	1.6 – 3.2 years 339-400bps
Mortgage-backed securities 31 December 2015	2	DCF Method	Weighted Average Life Credit spread	1.6 - 3.3 years 204-400bps

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy			Consolidated and Bank
Description	Input	Sensitivity used	Effect on fair value $000
Mortgage-backed securities 31 December 2016	Weighted Average Life Credit spread	+/-10% +/-10%	+/-6 +/-41
Mortgage-backed securities 31 December 2015	Weighted Average Life Credit spread	+/-10% +/-10%	+/-6 +/-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.

Available for sale financial assets: Mortgage-backed securities		
amounts in millions of dollars	Consolidated	Bank
Opening balance – 1 January 2016	2	2
Transfers into or (out of) Level 3	-	-
Total gains and losses		
- Other comprehensive income	(1)	(1)
Closing balance – 31 December 2016	**1**	**1**
Opening balance – 1 January 2015	2	2
Transfers into or (out of) Level 3	-	-
Total gains and losses		
- Other comprehensive income	-	-
Closing balance – 31 December 2015	**2**	**2**

18. Share based payments

The following table illustrates the number and weighted average exercise prices ("WAEP") in Euro of, and movements in, share options issued during the year.

Share options	2016		2015	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	202,457	€ 17.36	356,855	€ 14.82
Lapsed or forfeited during the year	(74,193)	€ 21.16	(66,028)	€ 18.13
Exercised during the year	-	-	(92,747)	€ 6.70
Transferred during the year	45,035	€ 13.10	4,377	€ 10.07
Outstanding at the end of the year	**173,299**	**€ 14.62**	**202,457**	**€ 17.36**
Exercisable at the end of the year	**173,299**	**€ 14.62**	**202,457**	**€ 17.36**

18. Share based payments (continued)

The following tables illustrate the number and weighted average grant prices ("WAGP") in Euro of, and movements in, performance units issued during the year.

Performance units	2016		2015	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	157,784	€ 10.14	177,771	€ 7.45
Forfeited during the year	(18,943)	€ 10.60	(12,866)	€ 8.71
Granted during the year	166,038	€ 10.24	114,454	€ 12.94
Performance effect	12,539	€ 9.00	-	-
Vested during the year	(142,088)	€ 9.58	(124,248)	€ 8.97
Transferred during the year	3,272	€ 8.29	2,673	€ 7.44
Outstanding at the end of the year	**178,602**	**€ 10.51**	**157,784**	**€ 10.14**

The outstanding balances of share options as at 31 December 2016 are:

Year of Grant	2016		2015	
	Number of Options	Exercise Price	Number of Options	Exercise Price
2006	-	-	35,273	€ 25.16
2007	42,086	€ 24.72	41,941	€ 24.72
2008	65,692	€ 16.62	83,150	€ 16.58
2009	17,887	€ 2.90	21,887	€ 2.90
2010	47,634	€ 7.35	20,206	€ 7.35
Total	**173,299**	**€ 14.62**	**202,457**	**€ 17.34**

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 2016 are:

Year of Grant	2016		2015	
	Number of Performance Units	WAGP	Number of Performance Units	WAGP
2013	-	-	36,965	€ 5.63
2014	21,169	€ 9.44	45,928	€ 9.62
2015	42,336	€ 12.42	74,891	€ 12.68
2016	115,097	€ 10.01	-	-
Total	**178,602**	**€ 10.51**	**157,784**	**€ 10.14**

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 2016 net of tax is $1,912k (2015: $1,773k).

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% to 5%), as well as the expected life of the options granted (from 5 years to 9 years), the exercise price (EUR 3 – EUR 25), the current share price, the expected volatility of the certificates of ING Group shares (25% - 84%) and the expected dividend yield (0.9% to 9.0%). 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 years. The weighted average remaining contractual life for share options outstanding is 2 years.

18. Share based payments (continued)

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.

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.

19. Commitments and contingencies

Bank	2016		2015	
amounts in millions of dollars	Unused	Available	Unused	Available
Liquidity facilities to related entities	209	209	210	210

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 millions of dollars	2016	2015
Commitments to extend credit		
- undrawn loan commitments	7,199	6,248
- bank accepted guarantees	79	12
Total commitments to extend credit	**7,278**	**6,260**
Operating leases – land & buildings *		
Lease payments due:		
- not later than 1 year	10	11
- later than 1 year and less than 5 years	36	64
- later than 5 years	54	61
Total minimum lease payments	**100**	**136**

*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), 474 Murray Street (Perth) and 60 Margaret Street (Sydney).

19. Commitments and contingencies (continued)

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 2016 (2015: Nil).

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.

20. Related party disclosures

Key management personnel compensation

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

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) (resigned 22 June 2016) and Chief Executive Officer (resigned 1 June 2016)
Mark Edwin Newman	Director (Non-Executive)
Aris Bogdaneris	Director (Non-Executive)
Uday Sareen	Director (Executive) (appointed 22 June 2016) and Chief Executive Officer (appointed 1 June 2016)

Specified Executives:

Sander Aardoom	Chief Financial Officer (reassigned to ING Groep N.V. on 22 January 2016)
Simon Patrick Andrews	Chief Operating Officer (reassigned to ING Groep N.V. on 31 December 2016)
Bart Frans Maarten Hellemans	Chief Risk Officer
John Andrew Arnott	Executive Director, Customers
Lisa Dominique Claes	Executive Director, Customer Delivery (resigned 31 July 2016)
Alan Lee	Chief Financial Officer (reassigned from ING Groep N.V on 22 January 2016)
Fiona Rachel Monfrooy	Executive Director, Human Resources
Michael Anthony Witts	Treasurer
John Philip Moore	Executive Director, Commercial Property Finance (resigned 24 December 2015)

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

amounts in thousands of dollars	2016	2015
Short-term employee benefits	5,318	4,774
Other long-term benefits	1,127	949
Share-based payments	942	943
Termination benefits	250	-
Post-employment benefits	-	-
Total compensation	**7,637**	**6,666**

20. Related party disclosures (continued)

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 during the financial year related to personal banking, superannuation, insurance and deposit transactions. These transactions are considered domestic in nature, were on normal commercial terms and conditions and in the ordinary course of business.

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	2016	For the period	2015	For the period
Aggregate amounts receivable from related parties in the wholly owned group	300,455	10,534	354,759	10,909
Aggregate amounts payable to the ultimate controlling entity	(100,366)	(12,206)	(301,296)	(10,160)
Aggregate amounts payable to related parties in the wholly owned group	(8,175,242)	(211,401)	(8,025,296)	(245,117)
Total	**(7,975,153)**	**(213,073)**	**(7,971,833)**	**(244,368)**

Transactions with controlled entities

Bank				
amounts in thousands of dollars	2016	For the period	2015	For the period
Aggregate amounts receivable from controlled entities	6,733,374	323,801	6,721,168	347,290
Aggregate amounts due to controlled entities	(9,647,364)	(302,373)	(9,661,249)	(342,141)
Total	**(2,913,990)**	**(21,428)**	**(2,940,081)**	**(5,149)**

21. Auditor's remuneration

	Consolidated		Bank	
amounts in thousands of dollars	2016	2015	2016	2015
Amounts paid or due and payable for audit of the consolidated financial report by the auditor	445	466	280	287
Amounts paid or due and payable for other services to the auditor:				
Regulatory services	149	132	149	132
Taxation services	-	165	-	165
Other services	232	148	232	148
Total	**826**	**911**	**661**	**732**

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

22. Subsequent events

On 15 March 2017, the directors of the Group paid a dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend payment of $100 million (2015: $300 million) to ING Bank N.V., the parent, represents a fully-franked dividend of 7.4 cents per share (2015: 22.5 cents per share).

Other than the matter mentioned above, no subsequent events or transactions have occurred since the year ended 31 December 2016 or are pending that would have a material effect on the Financial Statements.

23. Other accounting policies and accounting standard developments

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 2016:

- AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. Management has an internal project underway to assess the impact of implementation of the new standard prior to its adoption. As at the date of this report its impact is yet to be quantified.

- AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 15.

- AASB 16 Leases removes the lease classification test and requires all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for lessees. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption will be permitted for entities that also adopt AASB 15. The Group is not currently intending to adopt this standard early and the extent of the impact has not expected to be material.

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.

23. Other accounting policies and accounting standard developments (continued)

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

amounts in millions of dollars	2016	2015
Residential mortgages	9,679	9,146
Total	**9,679**	**9,146**

Facilities used in securitisation programmes in millions

amounts in millions of dollars	2016	2015
Liquidity facilities	209	210
Total	**209**	**210**

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.

23. Other accounting policies and accounting standard developments (continued)

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	2016	2015
Computer software	3 - 5 years	3 - 5 years
Computer hardware	3 - 5 years	3 - 5 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.

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.

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.

Recognition of financial assets

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.

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.

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.

23. Other accounting policies and accounting standard developments (continued)

Creditors and other liabilities

These represent 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.

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 Bank and its controlled entities (Group) 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 2016 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

Uday Sareen
Director

Sydney
16 March 2017

Independent Auditor's Report

To the shareholders of ING Bank (Australia) Limited,

Opinion

We have audited the Financial Report of ING Bank (Australia) Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group and Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated statements of financial position as at 31 December 2016
- Consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at the year end and from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company and Group in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in ING Bank (Australia) Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

KPMG

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company and Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company and Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar[7].pdf. This description forms part of our Auditor's Report.

KPMG

John Teer
Partner

Sydney
16 March 2017

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