ING DIRECT

Spend your life well

Annual Report 2014

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CEO'S YEAR IN REVIEW

In 2014, ING Bank (Australia) Limited ("the Group") performed strongly in an increasingly competitive market. We made an annual net profit of $297 million, up 9.4% on the previous year, striking a balance between delivering fair value to our customers and a sustainable return for our shareholder.

Globally, ING Groep N.V. achieved a significant milestone in November repaying the final instalment of EUR 1 billion to the Dutch State ahead of schedule. As a result, we're well positioned to execute and deliver on our strategy in 2015.

Our Customers

Listening to our customers and understanding what they truly value continued to influence our decisions and actions in 2014 as we redefined our value proposition.

We re-launched our Orange Everyday account with a unique proposition - offering customers free ATM access anywhere in Australia when they deposit their monthly salary into an ING DIRECT account.

We also replaced introductory rates for new customers with a Loyalty Bonus for all Orange Everyday customers of additional interest above the standard variable rate on a Savings Maximiser irrespective of how long they have banked with us.

Customer satisfaction is a key measure of our success so we pay particular attention to our Net Promoter Score (NPS) – how likely a customer is to recommend us to someone else. Our satisfied customers continued to advocate on our behalf in 2014, reflected in our top NPS ranking out of all banks in Australia (as measured by the *Nielsen Financial Services* Monitor).

Primary Banking Relationships

Our continued focus on becoming our customers' primary bank gained momentum in 2014 following the introduction of the Loyalty Bonus in October.

As at 31 December 2014, we had 252,000 Orange Everyday transaction accounts, a 40% increase on the previous year.

The proportion of active customers holding two or more products continues to improve, rising from 11% (2012), to 14% (2013) to 18% (2014), indicating customers are making the transition towards choosing us as their primary bank.

Deposits

During 2014 our deposits portfolio increased by 3.7% to $32.4 billion. All deposits remained in the country and helped fund Australian mortgages. Our focus on developing primary bank relationships led to an increase in the volume of deposits from personal customers, up $1.4 billion in 2014 to $22.0 billion.

Residential Mortgages

Our residential mortgage portfolio remained steady throughout 2014 at $37.7 billion, as we focused on rebalancing the portfolio towards branded mortgages to build deeper relationships with our clients.

We grew our branded mortgages by $2.5 billion or 7.8%. The credit quality of our mortgage portfolio remained a highlight in 2014 with the level of arrears and defaults continuing to decline. This improvement has seen our loan loss provisions decrease from $13.7 million to $9.5 million over the year. Our credit policy remains focused on customer serviceability and we maintained prudent buffers to take account of changes in personal income, expenses and investments. We continue to closely monitor the movement in underlying property values.

Commercial Loans

We made progress in diversifying our asset base by growing the Utilities, Infrastructure & Project Finance ("UIP") book from $0.4 billion to $1.1 billion over the past 12 months. Our Commercial Property Finance ("CPF") portfolio remained relatively flat at $1.6 billion in line with our strategy.

Superannuation

In October, two years after launching, *Living Super* achieved a milestone of $1 billion funds under management ("FUM").

Living Super also continued to be well received by industry and the media,and received the Super Ratings *"Fast Mover"* award for being the fastest growing fund in the industry. Lisa Claes, our Executive Director of Customer Delivery, was awarded the 2014 Superannuation Marketer of the Year sponsored by *Financial Standard's MAX Awards*. By the end of the year, we had over 34,000 active accounts and $1.1 billion in FUM.

Efficiency and Innovation

During the first half of 2014, we upgraded our IT infrastructure, moving our entire technology operations onto a private cloud – the first Australian bank to do so. This allowed us to redistribute our resources from maintenance and operations to investing in services and innovation which provide a greater experience for our customers.

We continue to reap the benefits of our 'lean bank' model, improving our already sector-leading cost to income ratio by 0.4% to 34.7%.

Funding and Liquidity

Our funding priority was to increase the overall retail deposit portion in the total liability mix. By the end of 2014, our deposit to lending ratio (including Middle Market and Superannuation deposits) increased 1.6% to almost 78%. We started 2015 with a healthy excess to the Liquidity Coverage Ratio required by the APRA standard.

Throughout 2014 liquidity conditions for the Group were comfortable, with ample funding available across both retail and wholesale funding markets.

The Group issued its largest and most heavily over-subscribed RMBS transaction mid-year. Over the past two years the RMBS market has been an important source of funding for the Group with an increasing number of domestic and offshore investors supporting the market.

Our strategy to continue lengthening the duration profile of our liabilities is supported by this issuance, and other longer term funding transactions, with a continued decrease in exposure to short term wholesale markets.

Capital

Our capital adequacy ratio continues to be well above the regulatory minimum, improving by 0.3% to 14.0% by the end of 2014. As part of prudent capital management, in December 2014 the Group declared and provided for a $275 million dividend payable to ING Bank N.V.

Sustainability

In 2014, we focused on creating a sustainable business by enabling our customers, employees and community to get ahead. Financial grants, volunteering and business integrated initiatives focused on three key areas to achieve maximum impact:

1. Be a Champion of Financial Wellbeing

In partnership with *School for Social Entrepreneurs Australia* ("SSE"), we ran a series of Financial Wellbeing & Financial Management Masterclasses and Webinars for over 100 social entrepreneurs across Australia. Our Financial Wellbeing Index reached over one million Australians.

2. Leveraging our expertise to support bold ideas for social change

Dreamstarter, our online crowd funding initiative run in partnership with *StartSomeGood* and *School for Social Entrepreneurs Australia,* boosted Australia's social enterprise sector by funding and raising the profile of 17 projects committed to creating social change.

3. Being socially and environmentally responsible

We established a Sustainability Council and Sustainability Leadership Group to drive socially and environmentally responsible initiatives throughout the organisation. We also created an environmental dashboard to effectively track and monitor paper, electricity usage and waste.

Our People

The passion, energy and commitment of our employees are the cornerstone of our culture and are integral to delivering an exceptional experience for our customers.

We're dedicated to being a great place to work, something which was reflected in the annual *Towers Perrin Global Employee Engagement Survey* where we achieved a score of 82%, 6 percentage points higher than the industry norm.

Last year we received many accolades recognising our products, services and employees, including a number of coveted awards which were voted on by customers.

These include:

- Best Bank, Best Bank Account, Best Debit Card and Best Savings Account in the 2014 *Mozo's People's Choice Banking Awards;*
- Contact Centre of the Year at *2014 Auscontact Association Awards* (category of 150+ staff);
- No. 1 in Customer Service Award for Online Banks as part of the *International Customer Service Professionals People's Choice Awards;*
- Australia's Best Non-Major Lender voted by Brokers for the third consecutive year;
- ESi Award (Home Loans category) – Australian Service Excellence Awards;
- People's Choice Team Award – Gold Medal – *International Customer Service Loyalty Awards.*

Diversity & inclusion

Diversity and inclusion helps us improve business results, enhances our reputation and attracts, engages and retains talented people because our people value working in an organisation where differences are respected. In addition, having a diverse range of employees better enables us to provide outstanding service to our customers.

For us, the 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.

Through our culture, as well as our performance planning and development processes, we reinforce our expectations of all leaders to lead in an inclusive way and to value difference to create an environment in which everyone has the opportunity to succeed regardless of any consideration other than their ability to do their job. Each year we review our performance and reward outcomes to ensure that no unconscious bias can be identified in the decisions of managers.

ING DIRECT is required by the Workplace Gender Equality Act 2012 to report our workforce gender profile as at 31 March each year. Our 2014 report was lodged with the Workplace Gender Equality Agency in May 2014.

Outlook

Following a strong and successful 2014, our priority in 2015 remains focused on becoming our customers' primary bank.

We are committed to helping our customers get ahead by giving them the knowledge, tools, products and services necessary to do so. We want to make it easier for them to manage their money, and make the right financial decisions, through providing simple and straightforward banking.

I look forward to executing our strategy in 2015, and continuing to deliver fair value and a unique alternative in banking to our customers.

Vaughn Richtor

Chief Executive Officer,
ING DIRECT Australia

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

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

for the year ended 31 December 2014.

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

DIRECTORS' QUALIFICATIONS AND SPECIAL RESPONSIBILITIES

Michael Katz, BComm (Hons), Chairman

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

Amanda Lacaze, BA

Ms Lacaze was appointed Director in May 2011. Ms Lacaze is a member of the Audit and Risk Committees and was appointed a member of the Remuneration & Nomination Committee on 24 October 2013.

Cornelis Petrus Adrianus Joseph Leenaars, LL.M, PMD

Mr Leenaars was appointed Director in March 2012. Mr Leenaars is a member of the Audit, Risk and Remuneration & Nomination Committees.

John Masters, BComm (Hons), CA, Barrister-at-Law

Mr Masters was appointed Director in January 2010. Mr Masters is Chairman of the Audit Committee and is a member of the Risk Committee.

Vaughn Nigel Richtor, BA (Hons), Chief Executive Officer

Mr Richtor was appointed Director in February 2010. On 1 August 2012, Mr Richtor was appointed Chief Executive Officer.

Ann Sherry AO, BA

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

COMPANY SECRETARY

Matthew Wade Sinnamon, LL.B, B.Bus, CSA, Solicitor

Mr Sinnamon was appointed Company Secretary in December 2007 and attended all meetings of the Board and its Committees. Prior to his resignation, Mr Sinnamon was also the Head of Legal & Compliance of the Group. Mr Sinnamon resigned from the Group in October 2014.

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

Mr Dowdall was formally appointed by the Board as acting Company Secretary in October 2014 and attended the meetings of the Board and its Committees in October and December 2014. Mr Dowdall is a senior solicitor of the Group. Mr Dowdall will attend the February 2015 board meeting in conjunction with Mr Rod Saville, the newly appointed Company Secretary who was appointed by the Board on 24 February 2015.

MEETINGS OF DIRECTORS

Director (eligible to attend)	Number Held	Number Attended
M Katz	7	7
A Lacaze	7	7
C Leenaars	7	3
J Masters	7	6
V Richtor	7	7
A Sherry AO	7	5

COMMITTEE MEETINGS

Director (eligible to attend)	Audit Committee		Risk Committee		R&N Committee*	
	Held	Attended	Held	Attended	Held	Attended
M Katz	6	6	6	6	5	5
A Lacaze	6	6	6	6	5	5
C Leenaars	6	2	6	2	5	2
J Masters	6	6	6	6	n/a	n/a
V Richtor	n/a	n/a	n/a	n/a	n/a	n/a
A Sherry AO	6	5	6	4	5	5

* R&N Committee - Remuneration & Nomination Committee

CORPORATE STRUCTURE

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

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was the provision of banking and related services. There have been no significant changes in the nature of those activities during the year.

EMPLOYEES

The Group employed 1,019 permanent employees as at 31 December 2014 (2013: 982 permanent employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity at 31 December 2014 was $3,517 million (2013: $3,532 million).

The Bank continued to hold notes issued by the IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1, IDOL Trust Series 2012-2, IDOL Trust Series 2013-1 and IDOL Trust Series 2013-2. During the year, one new trust was established, IDOL Trust Series 2014-1 on 18th June 2014. The Bank also holds notes issued by this trust. All of these trusts are special purpose entities consolidated by the Bank.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 12 March 2015, the Group sold a portfolio of residential mortgages and received consideration of $1.2 billion. As the transaction occurred after balance date the proceeds of the sale have not been recorded in the Financial Statements.

On 16 March 2015, the directors of the Group made a dividend payment in respect of the 2014 financial year. The total amount of the dividend payment was $275 million (2013: Nil) to ING Bank N.V., the parent. This represents a fully-franked dividend of 20.6 cents per share.

Other than the matters mentioned above, no subsequent events have occurred since the year ended 31 December 2014, or are pending, that would have a material effect on the Financial Statements.

Signed in accordance with a resolution of the Directors.

Michael Katz
Chairman

Sydney
20 March 2015

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ROUNDING

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

AUDITOR'S INDEPENDENCE DECLARATION

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

Vaughn Richtor
Director

Building a better
working world

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

In relation to our audit of the financial report of ING Bank (Australia) Limited for the financial year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney
20 March 2015

BOARD RESPONSIBILITIES

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

Composition of the Board

The Board comprises five Non-Executive Directors (one of whom is a representative 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 7 times this year.

Board Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

Audit Committee

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

BOARD RESPONSIBILITIES (CONTINUED)

Further, 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 insurance, legal and compliance matters. The Risk Committee ensures a holistic approach to risk management within the Group. It ensures the Group maintains its established policy of effective and informed risk management, reporting to the Board as necessary, and being available to meet with regulators (such as Australian Securities and Investment Commission ("ASIC") and APRA) on behalf of the Group, when requested. This Committee generally meets on the same day as the meeting of the Board.

Remuneration & Nomination Committee

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

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

Income Statement for the year ended 31 December 2014

		Consolidated		Bank	
amounts in thousands of dollars	Note	2014	2013	2014	2013
Interest income		**2,370,329**	2,547,547	**2,366,000**	2,543,809
Interest expense		**(1,732,017)**	(1,957,139)	**(1,724,166)**	(1,940,145)
Net interest income	4	**638,312**	590,408	**641,834**	603,664
Net non-interest income / (expense)		**21,207**	23,629	**7,747**	12,019
Total operating income	4	**659,519**	614,037	**649,581**	615,683
Employment expenses		**(118,099)**	(114,241)	**(118,099)**	(114,241)
Advertising expenses		**(38,462)**	(39,862)	**(38,462)**	(39,862)
Depreciation and amortisation expenses		**(16,854)**	(11,703)	**(16,854)**	(11,703)
Occupancy expenses		**(14,540)**	(14,971)	**(14,540)**	(14,971)
Technology expenses		**(11,946)**	(13,267)	**(11,946)**	(13,267)
Other expenses		**(29,200)**	(21,459)	**(27,929)**	(20,346)
Total operating expenses	4	**(229,101)**	(215,503)	**(227,830)**	(214,390)
Loan loss provisions	4	**(4,627)**	(12,568)	**(4,627)**	(12,568)
Operating profit before tax		**425,791**	385,966	**417,124**	388,725
Income tax expense	6	**(128,777)**	(114,501)	**(126,177)**	(115,328)
Profit for the year		**297,014**	271,465	**290,947**	273,397

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Statement of Comprehensive Income for the year ended 31 December 2014

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2014**	2013	**2014**	2013
Profit for the year		**297,014**	271,465	**290,947**	273,397
Other Comprehensive Income					
Items that may be reclassified subsequently to the income statement					
Unrealised revaluations net of tax:					
Available for sale financial assets	23				
Gains arising during the year		**4,849**	16,762	**4,849**	16,762
(Gains)/losses transferred to the income statement		**(813)**	(9,138)	**(813)**	(9,138)
Net gains on available for sale financial assets		**4,036**	7,624	**4,036**	7,624
Cash flow hedges	23				
Net Gains/(losses) arising during the year		**(41,398)**	16,729	**(41,398)**	16,729
Net gains/(losses) on cash flow hedges		**(41,398)**	16,729	**(41,398)**	16,729
Total amount recognised directly in equity		**(37,362)**	24,353	**(37,362)**	24,353
Total Comprehensive Income		**259,652**	295,818	**253,585**	297,750

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Balance Sheet as at 31 December 2014

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2014**	2013	**2014**	2013
ASSETS					
Cash and cash equivalents	10	**808,287**	952,489	**495,421**	610,858
Due from other financial institutions	11	**368,338**	109,458	**431,151**	172,247
Available for sale financial assets	12	**7,346,518**	7,426,949	**7,346,518**	7,426,949
Loans and advances	13	**41,762,000**	40,987,846	**41,762,000**	40,987,846
Derivative assets	14	**56,665**	84,149	**17,485**	51,075
Receivables and other assets	15	**218,543**	201,282	**216,344**	188,856
Net deferred tax assets	6	**27,774**	18,317	**27,774**	18,317
Intangible assets	17	**790**	-	**790**	-
Property, plant and equipment	16	**46,758**	38,292	**46,758**	38,292
Total assets		**50,635,673**	49,818,782	**50,344,241**	49,494,440
LIABILITIES					
Deposits and other borrowings[1]	18	**41,772,205**	40,093,231	**41,888,954**	40,115,069
Derivative liabilities	14	**460,050**	210,985	**457,882**	208,190
Creditors and other liabilities	19	**439,642**	440,894	**429,118**	437,343
Debt issues	20	**4,154,396**	5,530,052	**3,763,042**	5,188,286
Provisions	21	**291,979**	12,024	**291,979**	12,024
Total liabilities		**47,118,272**	46,287,186	**46,830,975**	45,960,912
Net assets		**3,517,401**	3,531,596	**3,513,266**	3,533,528
EQUITY					
Contributed equity	22	**1,334,000**	1,334,000	**1,334,000**	1,334,000
Reserves	23	**98,194**	132,213	**98,194**	132,213
Retained profits	24	**2,085,207**	2,065,383	**2,081,072**	2,067,315
Total equity		**3,517,401**	3,531,596	**3,513,266**	3,533,528

[1] Comparative amounts were previously split into 'Deposits' and 'Deposits and other borrowings'.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Statement of Changes in Equity for the year ended 31 December 2014

Consolidated

31 December 2014

amounts in thousands of dollars	Note	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
		22	23	24, 29	23	23	
As at 1 January 2014		**1,334,000**	**136,163**	**2,065,383**	**(23,964)**	**20,014**	**3,531,596**
Profit for the year		-	-	297,014	-	-	297,014
Other comprehensive income		-	-	-	(41,398)	4,036	(37,362)
Total comprehensive income		-	-	**297,014**	**(41,398)**	**4,036**	**259,652**
Dividend provided for or paid	29	-	-	**(275,000)**	-	-	**(275,000)**
General reserve for credit losses		-	**2,190**	**(2,190)**	-	-	-
Share-based payment plan		-	**1,153**	-	-	-	**1,153**
As at 31 December 2014		**1,334,000**	**139,506**	**2,085,207**	**(65,362)**	**24,050**	**3,517,401**

31 December 2013

amounts in thousands of dollars	Note	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
		22	23	24, 29	23	23	
As at 1 January 2013		1,334,000	138,057	1,790,580	(40,693)	12,390	3,234,334
Profit for the year		-	-	271,465	-	-	271,465
Other comprehensive income		-	-	-	16,729	7,624	24,353
Total comprehensive income		-	-	271,465	16,729	7,624	295,818
General reserve for credit losses		-	(3,338)	3,338	-	-	-
Share-based payment plan		-	1,444	-	-	-	1,444
As at 31 December 2013		1,334,000	136,163	2,065,383	(23,964)	20,014	3,531,596

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Statement of Changes in Equity for the year ended 31 December 2014

Bank

31 December 2014

amounts in thousands of dollars	Note	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
		22	23	24, 29	23	23	
As at 1 January 2014		**1,334,000**	**136,163**	**2,067,315**	**(23,964)**	**20,014**	**3,533,528**
Profit for the year		-	-	290,947	-	-	290,947
Other comprehensive income		-	-	-	(41,398)	4,036	(37,362)
Total comprehensive income		**-**	**-**	**290,947**	**(41,398)**	**4,036**	**253,585**
Dividend provided for or paid	29	-	-	(275,000)	-	-	(275,000)
General reserve for credit losses		-	2,190	(2,190)	-	-	-
Share-based payment plan		-	1,153	-	-	-	1,153
As at 31 December 2014		**1,334,000**	**139,506**	**2,081,072**	**(65,362)**	**24,050**	**3,513,266**

31 December 2013

amounts in thousands of dollars	Note	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
		22	23	24, 29	23	23	
As at 1 January 2013		1,334,000	138,057	1,790,580	(40,693)	12,390	3,234,334
Adjustment to prior period profit*				1,932			1,932
Profit for the year		-	-	271,465	-	-	271,465
Other comprehensive income		-	-	-	16,729	7,624	24,353
Total comprehensive income		-	-	273,397	16,729	7,624	297,750
General reserve for credit losses		-	(3,338)	3,338	-	-	-
Share-based payment plan		-	1,444	-	-	-	1,444
As at 31 December 2013		1,334,000	136,163	2,067,315	(23,964)	20,014	3,533,528

*Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Cash Flow Statement for the year ended 31 December 2014

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2014**	2013	**2014**	2013
Cash flows from operating activities					
Operating profit before tax		**425,791**	385,966	**417,124**	388,725
Adjustments for:					
depreciation and amortisation expenses		**16,854**	11,703	**16,854**	11,703
loan loss provisions		**4,627**	12,568	**4,627**	12,568
other		**(75,266)**	36,235	**(72,665)**	30,782
Taxes paid		**(99,178)**	(80,146)	**(99,178)**	(80,146)
Changes in:					
loans and advances		**(778,781)**	403,376	**(778,781)**	403,376
derivatives		**276,549**	75,408	**283,280**	108,208
receivables and other assets		**(17,261)**	93,893	**(27,488)**	106,319
creditors and other liabilities		**3,704**	421	**(3,267)**	4,265
deposits[1]		**994,784**	2,371,345	**1,089,694**	2,610,724
Net cash flows from operating activities		**751,823**	3,310,769	**830,200**	3,596,524
Cash flows from investing activities					
Changes in:					
available for sale financial assets		**80,431**	18,851	**80,431**	18,851
property, plant and equipment		**(26,110)**	(26,278)	**(26,110)**	(26,278)
Net cash flows from investing activities		**54,321**	(7,427)	**54,321**	(7,427)
Cash flows from financing activities					
Changes in:					
deposits payable to other financial institutions[1]		**684,190**	2,264,177	**684,190**	2,264,177
debt issues		**(1,375,656)**	(5,043,300)	**(1,425,244)**	(5,385,068)
Net cash flows from financing activities		**(691,466)**	(2,779,123)	**(741,054)**	(3,120,891)
Net cash flows		**114,678**	524,219	**143,467**	468,206
Cash and cash equivalents at beginning of year[2]		**1,061,947**	537,728	**783,105**	314,899
Cash and cash equivalents at end of year	10, 11	**1,176,625**	1,061,947	**926,572**	783,105

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

[2] For the purposes of the Cash Flow Statement, cash and cash equivalents include 'cash' and 'due from other financial institutions'.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

1. CORPORATE INFORMATION

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

The financial report for the year ended 31 December 2014 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 and IDOL Trust Series 2014-1 (collectively referred to as "the Group"). The financial report was authorised for issue in accordance with a resolution of the Directors on 20th March 2015.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Presented below are the principal accounting policies adopted in preparing the accounts of the Group.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001.

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

i. Statement of Compliance with IFRS

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

ii. Historical Cost Convention

The financial report has been prepared on a historical cost basis, except for available for sale financial assets and financial liabilities (including derivative instruments) which are measured at fair value.

iii. New Accounting Standards and Interpretations

The following standards became effective 1 January 2014 and have been reflected in the Group's Financial Statements:

- AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities.* AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The application date for this standard is 1 January 2014.

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 2014:

- AASB 9 *Financial Instruments* - This standard improves and simplifies the classification and measurement of financial assets. On 24 July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. On 17 December 2014, the AASB approved the principal standard which relflects the AASB's work on the replacement of AASB 139 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in AASB 139. Consistent with the IASB's tentative decision at its February 2014 meeting to make IFRS 9 applicable for reporting periods beginning on or after 1 January 2018, the AASB has decided to postpone the mandatory application of AASB 9 until 1 January 2018. The new requirements of AASB 9 will be further assessed closer to the effective date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- AASB 15 *Revenue from Contracts with Customers* establishes principles for reporting useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. AASB 15 also includes a cohesive set of disclosure requirements that provide users of Financial Statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. AASB 2014-5 incorporates the consequential amendments arising from the issuance of AASB 15. AASB 15 and AASB 2014-5 apply to annual reporting periods beginning on or after 1 January 2017. The new requirements of AASB 15 will be further assessed closer to the effective date.

- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The application date for this standard is 1 January 2014. These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS, these amendments should be noted in the Financial Statements.

- AASB Interpretation 21 *Levies* clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for AASB Interpretation 21. This interpretation has no impact on the Group as it has applied the recognition principles under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of AASB Interpretation 21 in prior years.

(b) Consolidation

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.

The IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1, IDOL Trust Series 2012-2, IDOL Trust Series 2013-1, IDOL Trust Series 2013-2 and the newly formed IDOL Trust Series 2014-1 ("the Trusts"), which are involved in the securitisation of the Bank's assets, have been consolidated.

(c) Income recognition

Interest income arising from loans is brought to account using a methodology that is in line with the effective interest rate method.

Fees earned from the origination of loans are taken to the Income Statement either immediately, kept on the Balance Sheet and taken to income once recognition criteria are met or recognised to interest income based on a linear amortisation over the expected average loan life. Quarterly testing is performed to demonstrate that the recognition of fees in the Income Statement in this manner is in line with the effective interest rate method.

All fee income other than that derived from the origination of a loan is recognised in non-interest income.

(d) Foreign currencies

i. Functional and presentation currency

Both the functional and presentation currency of the Group is Australian Dollars.

ii. Transactions and balances

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(e) Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise 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. Cash collateral for derivatives is classified as 'Due from other financial institutions'.

(f) Due from other financial institutions

Due from other financial institutions includes cash collateral pledged to counterparties on those interest rate swaps disclosed on the Balance Sheet as derivative liabilities. After initial measurement, amounts due from other financial institutions are held at amortised cost using a methodology that is in line with the effective interest rate method.

(g) Trade and other payables

These amounts 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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are 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.

(h) Financial assets

i. Classification

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held- to-maturity investments or available-for-sale financial assets.

ii. Measurement

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

All purchases and sales of financial assets classified as available for sale that require delivery within the time frame established by regulation or market convention are recognised at trade date, that is, the date that the Group commits to purchase or sell the asset and are measured at fair value. Loans and receivables are recognised at settlement date, which is the date that the Group receives or delivers the asset.

Available for sale financial assets

Available for sale financial assets are those that are designated as such or do not qualify to be classified as designated at fair value through the Income Statement, held to maturity or loans and advances. Such securities are available for sale and may be sold should the need arise, including capital and liquidity needs or changes in market conditions.

After initial measurement, available for sale financial assets are subsequently measured at fair value. Fair values of quoted investments in active markets are based on current bid prices.

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

Loans and advances, receivables and other assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securitisation

The Bank conducts a loan securitisation program whereby the equitable rights to selected mortgage loans are packaged and sold to the Trusts. The Trusts are special purpose vehicles that fund their purchase of the loans by issuing floating rate debt securities. The Bank does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts. The Bank is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

The transferred assets are equitably assigned to the securitisation 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 hence, is considered to retain the risks and rewards of these cash flows by virtue of the ownership of residual income units.

The Bank continues to reflect the securitised loans in their entirety and also recognises a financial liability to the Trusts. The interest payable on the intercompany financial asset / liability represents the return on an imputed loan between the Bank and the Trusts and is based on the interest income under the mortgages, the fees payable by the Trusts and the interest income or expense not separately recognised under the interest rate swaps transactions between the Bank and the Trusts.

Interest rate risk from the Trusts is transferred back to the Bank by way of interest rate swaps. Accordingly, under AASB 139 the original sale of the mortgages from the Bank to the Trusts does not meet the derecognition criteria set out in AASB 139.

All transactions between the Bank and the Trusts are eliminated on consolidation.

Repurchase and reverse purchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories as neither the risks nor rewards have been transferred away from the Group. The counterparty liability is included in deposits.

(i) Deposits and other borrowings

Deposits and other borrowings include term deposits, at-call deposits, negotiable certificates of deposits and pass through funding from ING Bank N.V. (Sydney Branch). Deposits and other borrowings are recognised initially at the fair value of the consideration received. Any difference between the amounts recognised, net of transaction costs and the redemption value is brought to account in the Income Statement over the period of these liabilities using a methodology that is in line with the effective interest rate method.

(j) Debt issues

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

(k) Derivatives and hedging activities

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 recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Fair values are obtained from quoted market prices in active markets including recent market transactions and valuation techniques including discounted cash flow models. 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 derivatives 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 are met.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

i. Cash flow hedges

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

(a) 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.

ii. 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.

(l) Leases

Leases are classified at their inception 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. Leveraged lease receivables are recorded as loans and advances which reflect the equity participation in the lease.

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 2014 (2013:Nil).

(m) Loan loss provisions and impairment of other financial assets

The Group assesses periodically 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.

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of, or delays in, repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unresolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group does not consider events that may be expected to occur in the future as objective evidence and consequently, they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in loan repayment rates, pre-payments, unemployment rates, property prices and commodity prices. Losses expected as a result of future events, no matter how likely, are not recognised.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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.

For the purposes 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 the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a "loss confirmation period" to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point-in-time at which those events are captured by the Group's credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in the Group's provision for impairment.

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

(n) 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.

(o) Property, plant and equipment

Property, plant and equipment is measured at historical cost and depreciated or amortised on a straight-line basis. Depreciation and amortisation rates used have been calculated to allocate the cost over the useful life of the assets.

Major depreciation and amortisation periods are:

Category	2014	2013
Computer software	**3 years**	3 years
Computer hardware	**3 years**	3 years
Leasehold improvements	**Term of lease**	Term of lease
Personal computers	**3 years**	3 years

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

Impairment losses are recognised in the Income Statement.

(p) 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 measured at cost. 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.

(q) Derecognition

i. 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 this case it derecognises the financial asset as if it no longer has control over the asset. 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.

ii. 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.

(r) Taxation

i. Income tax

Income tax expense comprises of current and deferred income tax expenses.

Bank

Current tax is the expected 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 by the reporting date and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax assets and liabilities are recognised for temporary differences between the tax base and the accounting carrying amount of an asset or liability in the Balance Sheet. A deferred tax asset or liability is not recognised if it arises from initial recognition of an asset or liability other than in a business combination and that, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are only recognised for temporary differences to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities 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 and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trusts

Income tax which has not been brought to account in relation to the Trusts as taxable income and gains are fully distributable to their beneficiaries in accordance with the laws of the Income Tax Assessment Acts.

ii. Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that management considers that it is probable that future taxable profits will be available against which the temporary differences or losses can be utilised. Significant management judgement is required to determine the amount of the deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

iii. Other taxes

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

1. 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
2. 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

iv. Tax consolidation

Effective 1 January 2004, the Group and other wholly owned subsidiaries of ING Groep N.V. in Australia formed a tax consolidated group. As a result, the tax consolidated group is taxed as a single entity. The tax consolidated group does not include the Trusts. The Head Entity of the tax consolidated group is ING Australia Holdings Limited and other eligible members include ING REDA Holdings Pty Limited, ING Real Estate Investment Management Australia Pty Limited and Jaring Pty Limited.

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 and reflect the timing of the Head Entity's obligation to make payments for tax liabilities to the relevant tax authorities.

(s) Employee benefits

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

i. Short term obligations

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.

ii. Long term obligations

In respect of long service leave, the Group's policy is to recognise a liability once an employee attains five years of service or more. Employee benefits are discounted where the difference between the carrying value and the present value is material. In determining the present value of future cash outflows, employee termination rates, future salary levels and the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

iii. Share-based payment transactions

The Group provides benefits to key personnel including key management personnel (Notes 7 & 8) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cost of these share-based payment transactions with employees 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 cost of share-based payment transactions is recognised in the Income Statement, together with a corresponding increase in equity, over the vesting period. Equity-settled transactions are re-measured at each balance sheet date up to and including the vesting date with changes in the fair value recognised in the Income Statement (as part of employment expenses). The charge to the Income Statement is the fair value of the equity-settled transactions less the amounts already charged in previous periods.

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.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(t) Contributed equity

Issued and paid-up capital represents the consideration received by the Group. Transaction costs (if any) arising on issue of ordinary shares are recognised in the value of share capital.

(u) Reserves

i. Available for sale reserve

The available for sale reserve records the fair value revaluation of financial assets classified as available for sale.

ii. Cash flow hedge reserve

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

iii. General reserve

The general reserve records attribution to equity from the employee share-based payment plan as well as movement in, and balance of the General Reserve for Credit Losses ("GRCL").

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

iv. Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

(v) Dividends

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Prior period adjustments

A review of the securitisation arrangements with regard to derivative instruments between the Bank (standalone), certain Trusts and external counterparties has resulted in adjustments to the 2013 Financial Statements of the Bank only. Previously derecognised derivatives between the Bank and external counterparties have now been recognised resulting in:

- an increase in profit of $1.9m;
- a reclassification resulting in a reduction to net interest income of $19.2m;
- a reclassification resulting in an increase to non-interest income of $21.8m; and
- an increase in total equity of $1.9m.

In addition, Mortgage Backed Securities of $341.8m have been reclassified to Intercompany Payable to Trust with no impact on profit.

These matters have been corrected in the relevant financial statement line items resulting in changes to the comparative information in the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the following notes for the Bank:

Note 4	Profit from ordinary activities
Note 5	Average balance and related interest
Note 6	Income tax expense
Note 10	Cash and cash equivalents
Note 11	Due from other financial institutions
Note 14	Derivatives
Note 15	Receivables and other assets
Note 18	Deposits and other borrowings
Note 19	Creditors and other liabilities
Note 20	Debt issues
Note 24	Retained profits
Note 25	Fair value of financial instruments

3. ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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. Significant judgements, estimates and assumptions made by management in the preparation of these Financial Statements are outlined below.

(a) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(b) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The grant date is the date which the Group and the employee agree to a share-based payment arrangement.

The measurement of equity-settled transactions granted is determined by ING Groep N.V. and is based on their fair value using a generally accepted valuation methodology. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of liabilities within the next reporting period but may impact expenses and equity.

(c) Long service leave provision

A liability for long service leave is recognised once an employee attains five years of service or more. An assessment has been made as to the impact of applying the current accounting policy compared to the present value of the long service leave liability. Where the impact is material the present value of the long service leave liability is used. In determining the present value of the long service leave liability, employee termination rates, future salary levels and additional costs have been taken into account.

(d) Provisions for loan losses

Provisions for loan losses are recognised based on an incurred loss model. Considerable judgement is exercised in 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. Changes in such judgements and analysis may lead to changes in the provisions for loan losses over time. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in loan repayment rates, pre-payments, unemployment rates, property prices and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(e) Loan origination costs

The Group's current accounting policy is to defer transaction costs associated with the origination of loans and to amortise to the Income Statement over 4.75 years (2013: 4.75 years). The amortisation period is based on a quarterly assessment of the expected maturity of the loan portfolio being the expected average loan life. Swap valuations

(f) Swap valuations

The Group revalues all cash collateralised derivatives on a tenor based projection with Overnight Index Swap discounting, in line with ING Groep N.V.

3. ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(g) 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. Based on its accounting policies, as disclosed in Note 2 (b), 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 labilities of these entities are included and off-balance sheet commitments are disclosed.

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	**2014**	**2013**
Residential mortgages	**11,202,331**	11,349,837
Total	**11,292,331**	11,349,837

Facilities used in securitisation programmes	**2014**	**2013**
Liquidity facilities	**244,560**	345,300
Total	**244,560**	345,300

4. PROFIT FROM ORDINARY ACTIVITIES

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Operating profit before tax has been determined as follows:				
Interest income				
Cash and cash equivalents	**19,344**	13,712	**15,015**	9,974
Due from other financial institutions	**7,376**	2,132	**7,376**	2,132
Available for sale financial assets	**247,597**	272,710	**247,597**	272,710
Loans and advances				
- Related parties	**4,622**	5,046	**4,622**	5,046
- Other	**2,026,290**	2,150,928	**2,026,290**	2,150,928
Gains on derivatives	**65,100**	103,019	**65,100**	103,019
Total interest income	**2,370,329**	2,547,547	**2,366,000**	2,543,809
Interest expense				
Deposits				
- Related bodies corporate	**303,595**	170,275	**307,433**	172,761
- Other persons or corporations	**1,084,201**	1,264,965	**1,084,201**	1,264,965
Debt issues				
- Related bodies corporate	**-**	-	**119**	-
- Other persons or corporations	**195,908**	386,156	**195,908**	386,156
Losses on derivatives	**142,557**	130,404	**130,749**	110,546
Other interest expense	**5,756**	5,339	**5,756**	5,717
Total interest expense	**1,732,017**	1,957,139	**1,724,166**	1,940,145
Net interest income	**638,312**	590,408	**641,834**	603,664
Non-interest income				
Account fees	**11,544**	10,277	**8,562**	7,448
Discharge fees and penalties	**3,268**	3,961	**3,268**	3,961
Gain from sale of available for sale financial assets	**1,162**	13,054	**1,162**	13,054
Gain from sale of loans	**24,929**	16,450	**24,929**	16,450
Loss from repurchase of debt securities	**(2,568)**	(14,192)	**(2,568)**	(14,192)
Fees and commissions	**(6,825)**	(5,912)	**(6,825)**	(5,912)
Cash flow hedge ineffectiveness	**234**	259	**234**	259
Fair value hedge mark to market hedged item	**187,647**	39,308	**187,647**	39,308
Fair value hedge mark to market hedging instrument	**(183,234)**	(40,124)	**(183,234)**	(40,124)
Other derivatives mark to market	**3,452**	33,371	**(3,281)**	572
Other	**(18,402)**	(32,823)	**(22,147)**	(8,805)
Net non-interest income	**21,207**	23,629	**7,747**	12,019
Total operating income	**659,519**	614,037	**649,581**	615,683

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

4. PROFIT FROM ORDINARY ACTIVITIES (CONTINUED)

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Operating expenses				
Employment expenses				
Wages and salaries	**103,016**	100,167	**103,016**	100,167
Superannuation	**8,719**	7,926	**8,719**	7,926
Share-based payment plan	**1,153**	1,444	**1,153**	1,444
Workers compensation	**495**	484	**495**	484
Other employee costs	**4,716**	4,220	**4,716**	4,220
Advertising expenses	**38,462**	39,862	**38,462**	39,862
Depreciation and amortisation expenses				
Computer hardware	**2,464**	3,987	**2,464**	3,987
Computer software	**12,604**	6,004	**12,604**	6,004
Leasehold improvements	**1,772**	1,698	**1,772**	1,698
Motor vehicles	**14**	14	**14**	14
Occupancy expenses	**14,540**	14,971	**14,540**	14,971
Technology expenses	**11,946**	13,267	**11,946**	13,267
Other expenses				
Professional services	**5,209**	5,328	**4,936**	5,205
Stationery and printing	**270**	287	**270**	287
Management costs				
- Parent company	**11,125**	5,815	**11,125**	5,815
- Related entities	**35**	35	**35**	35
Telephone and communication	**5,282**	4,414	**5,282**	4,414
Other	**7,279**	5,580	**6,281**	4,590
Total operating expenses	**229,101**	215,503	**227,830**	214,390
Loan loss provisions				
Collective provisions	**(5,022)**	(3,404)	**(5,022)**	(3,404)
Specific provisions	**9,649**	15,972	**9,649**	15,972
Total loan loss provisions [1]	**4,627**	12,568	**4,627**	12,568

[1] For the year ended 31 December 2014 the Group recognised $4.6 million in loan loss provisions (2013: $12.6 million). The loan loss provision expense for the year is primarily attributable to an $8.1 million and $1.5 million expense in individual specific provisions on the commercial and retail portfolio respectively. This was offset by a release of $5.0 million in collective provisions on the overall portfolio ($1.4 million retail; $3.6 million commercial).

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

5. AVERAGE BALANCE AND RELATED INTEREST

The following table shows the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Average balances are calculated from monthly balances unless otherwise disclosed.

Consolidated

amounts in thousands of dollars	**Average balance for 2014**	**Interest**	**Average rate for 2014**	Average balance for 2013	Interest	Average rate for 2013
Interest income						
Cash and amounts due from other financial institutions	**1,065,901**	**26,720**	**2.51%**	502,425	13,712	2.73%
Available for sale financial assets	**7,058,491**	**190,759**	**2.70%**	7,680,257	235,808	3.07%
Loans and advances	**41,605,504**	**2,039,615**	**4.90%**	40,947,714	2,179,406	5.32%
	49,729,896	**2,257,094**	**4.54%**	49,130,396	2,428,926	4.94%
Interest expense						
Deposits and other borrowings	**40,903,457**	**1,436,934**	**3.51%**	37,536,187	1,503,727	4.01%
Debt issues	**4,690,973**	**181,848**	**3.88%**	8,078,844	334,791	4.14%
	45,594,430	**1,618,782**	**3.55%**	45,615,031	1,838,518	4.03%
Net average balance and related interest	**4,135,466**	**638,312**		3,515,365	590,408	

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Bank

amounts in thousands of dollars	**Average balance for 2014**	**Interest**	**Average rate for 2014**	Average balance for 2013	Interest	Average rate for 2013
Interest income						
Cash and amounts due from other financial institutions	**892,064**	**22,391**	**2.51%**	443,437	12,106	2.73%
Available for sale financial assets	**7,058,491**	**190,759**	**2.70%**	7,680,257	235,808	3.07%
Loans and advances	**41,605,504**	**2,039,615**	**4.90%**	40,947,714	2,179,406	5.32%
	49,556,059	**2,252,765**	**4.55%**	49,071,408	2,427,320	4.94%
Interest expense						
Deposits and other borrowings	**40,714,606**	**1,429,083**	**3.51%**	37,128,800	1,488,865	4.01%
Debt issues	**4,690,973**	**181,848**	**3.88%**	8,078,844	334,791	4.14%
	45,405,579	**1,610,931**	**3.55%**	45,207,644	1,823,656	4.03%
Net average balance and related interest	**4,150,480**	**641,834**		3,863,764	603,664	

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Interest income or expense on derivative products has been attributed to the underlying accounting or economically hedged item and will therefore will differ to the face of the Income Statement on a gross interest basis.

6. INCOME TAX EXPENSE

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Income Statement				
Current income tax	**122,221**	84,770	**119,621**	85,597
Deferred income tax	**6,556**	29,731	**6,556**	29,731
Income tax expense reported in Income Statement	**128,777**	114,501	**126,177**	115,328
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	**(17,743)**	7,170	**(17,743)**	7,170
Revaluation of available for sale financial assets	**1,730**	3,267	**1,730**	3,267
Income tax expense recognised in other comprehensive income	**(16,013)**	10,437	**(16,013)**	10,437
Reconciliation of prima facie income tax expense on accounting profit before income tax expense:				
Operating profit before tax	**425,791**	385,966	**417,124**	388,725
Prima facie income tax on operating profit at 30% (2013: 30%)	**127,737**	115,790	**125,137**	116,617
Income Tax over/(under) provided in prior years	**1,576**	(559)	**1,576**	(559)
Effects of amounts which are not (assessable)/deductible	**(536)**	(730)	**(536)**	(730)
Income tax expense reported in Income Statement	**128,777**	114,501	**126,177**	115,328

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

6. INCOME TAX EXPENSE (CONTINUED)

	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
amounts in thousands of dollars	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	**27,717**	23,779	**3,938**	1,781	**27,717**	23,779	**3,938**	1,781
Revaluation of financial instruments	**-**	455	**(455)**	(456)	**-**	455	**(455)**	(456)
Revaluation of available for sale financial assets	**3,114**	1,655	**(553)**	271	**3,114**	1,655	**(553)**	271
Revaluation of fair value hedge	**-**	1,071	**(1,071)**	(1,070)	**-**	1,071	**(1,071)**	(1,070)
Accelerated depreciation for tax purposes	**4,375**	3,419	**956**	3,196	**4,375**	3,419	**956**	3,196
Other	**1,554**	1,572	**(19)**	648	**1,554**	1,572	**(19)**	648
Total deferred tax liabilities	**36,760**	31,951			**36,760**	31,951		
Set-off of tax[1]	**(36,760)**	(31,951)			**(36,760)**	(31,951)		
Net deferred tax liabilities	**-**	-			**-**	-		
Deferred tax assets								
Depreciation and amortisation expenses	**3,740**	3,278	**(462)**	(194)	**3,740**	3,278	**(462)**	(194)
Provisions for impairment	**12,142**	12,469	**327**	15,022	**12,142**	12,469	**327**	15,022
Deferred lending income	**58**	1,704	**1,646**	1,670	**58**	1,704	**1,646**	1,670
Revaluation of available for sale financial assets	**-**	-	**282**	(542)	**-**	-	**282**	(542)
Revaluation of cash flow hedge	**27,946**	10,273	**71**	78	**27,946**	10,273	**71**	78
Accrued expenses	**11,749**	14,734	**2,985**	9,016	**11,749**	14,734	**2,985**	9,016
Provisions	**5,094**	3,607	**(1,487)**	(154)	**5,094**	3,607	**(1,487)**	(154)
Deferred borrowing costs	**1,433**	1,766	**333**	(30)	**1,433**	1,766	**333**	(30)
Other	**2,372**	2,437	**65**	495	**2,372**	2,437	**65**	495
Total deferred tax assets before set-off	**64,534**	50,268			**64,534**	50,268		
Set-off of tax[1]	**(36,760)**	(31,951)			**(36,760)**	(31,951)		
Net deferred tax assets	**27,774**	18,317			**27,774**	18,317		
Deferred income tax charge			**6,556**	29,731			**6,556**	29,731

[1] Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Deferred tax assets will only be recognised if:

- future assessable income and capital gain is derived of a nature and of an amount sufficient to enable the benefit to be realised; and
- the conditions for deductibility imposed by tax legislation continue to be complied with.

6. INCOME TAX EXPENSE (CONTINUED)

Tax consolidation

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

Franking account

As the Group is a member of the tax consolidated group, all of the Group's franking credits have been assumed by the Head Entity. As a result and in accordance with an agreement between the Group and the Head Entity, it is anticipated that franking credits generated by past and future tax payments by the Group will be assumed by the Head Entity.

Taxation of Financial Arrangements ("TOFA")

The TOFA regime applied to the tax consolidated group from 1 January 2011. The regime intends to align the tax and accounting recognition and measurement of financial arrangements and their related flows. The tax consolidated group made a transitional election to bring the pre-existing arrangements into TOFA. The deferred tax in relation to the transitional adjustment was fully amortised as at 31 December 2014.

The Trusts did not make any tax timing elections under the TOFA regime. Financial arrangements in the Trusts will be accounted for under the applicable default method.

7. SHARE-BASED PAYMENT PLAN

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.

The expenses related to share-based payments are recognised in Note 4 as part of employee expenses. The following table illustrates the number ("No") and weighted average exercise prices ("WAEP") in Euro of, and movements in, share options issued during the year.

Share options	**2014 - No**	**2014 - WAEP**	2013 - No	2013 - WAEP
Outstanding at the beginning of the year	**386,846**	€14.29	471,062	€12.74
Lapsed during the year	**(98,978)**	€10.84	(84,866)	€6.04
Transferred during the year	**68,987**	€12.07	650	€61.13
Outstanding at the end of the year	**356,855**	€14.82	386,846	€14.29
Exercisable at the end of the year	**356,855**	€14.82	386,846	€14.29

7. SHARE-BASED PAYMENT PLAN (CONTINUED)

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

Performance units	2014 - No	2014 – WAGP	2013 - No	2013 - WAGP
Outstanding at the beginning of the year	**216,377**	€6.56	309,052	€7.78
Granted during the year	**105,002**	€9.81	166,325	€5.72
Vested during the year	**(159,707)**	€7.73	(252,890)	€7.47
Transferred during the year	**16,099**	€6.15	(6,110)	€7.47
Outstanding at the end of the year	**177,771**	€7.45	216,377	€6.56

The outstanding balances of share options as at 31 December 2014 are:

Year of Grant	Number of Options	Exercise Price
2005	43,012	€17.88
2006	39,218	€25.16
2007	45,523	€24.70
2008	95,494	€16.60
2009	35,722	€2.90
2010	97,886	€7.35
Total	356,855	€14.82

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

The outstanding balances of performance units as at 31 December 2014 are:

Year of Grant	Number of Performance Units	WAGP
2012	27,625	€6.40
2013	77,589	€5.69
2014	72,557	€9.74
Total	**177,771**	**€7.45**

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

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

Share options have a weighted average contractual maturity of 3 years while performance units have a weighted average contractual maturity of 2.4 years. The weighted average remaining contractual life for share options outstanding is 3.16 years.

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

Specified Executives:

Sander Aardoom	Chief Financial Officer
Simon Patrick Andrews	Chief Operating Officer
John Andrew Arnott	Executive Director, Customers
Lisa Dominique Claes	Executive Director, Customer Delivery
Bart Frans Maarten Hellemans	Chief Risk Officer
John Philip Moore	Executive Director, Commercial Property Finance
Natalie Jane Nicholson	Executive Director, Human Resources (resigned 30 January 2015)
Michael Anthony Witts	Treasurer (from 1 January 2014)

Specified Directors:

Michael Katz	Director (Non-Executive)
Amanda Lacaze	Director (Non-Executive)
Cornelis Petrus Adrianus Joseph Leenaars	Director (Non-Executive)
John Masters	Director (Non-Executive)
Vaughn Nigel Richtor	Director (Executive) and Chief Executive Officer
Ann Sherry AO	Director (Non-Executive)

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

amounts in thousands of dollars	**2014**	2013
Short-term employee benefits	**4,665**	4,952
Other long-term benefits	**903**	636
Share-based payments	**564**	1,009
Total compensation	**6,132**	6,597

Employees were not entitled to any other payments or benefits other than those disclosed in Notes 7 and 8.

9. AUDITOR'S REMUNERATION

	Consolidated		**Bank**	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Amounts paid or due and payable for audit of the consolidated financial report by Ernst & Young	**557**	414	**404**	299
Amounts paid or due and payable for other services to Ernst & Young:				
Regulatory services	**129**	109	**129**	109
Taxation services	**164**	180	**164**	180
Other services	**145**	189	**145**	189
Total	**995**	892	**842**	777

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

10. CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Cash and liquid assets	**381,172**	324,390	**375,401**	323,635
Cash equivalents held by other financial institutions	**427,115**	628,099	**120,020**	287,223
Total cash and cash equivalents	**808,287**	952,489	**495,421**	610,858

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

11. DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Cash collateral	**368,338**	109,458	**425,401**	167,897
Deposits placed with other financial institutions	**-**	-	**5,750**	4,350
Total due from other financial institutions	**368,338**	109,458	**431,151**	172,247

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

12. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Floating rate notes	**891,974**	760,673	**891,974**	760,673
Treasury notes	**235,574**	-	**235,574**	-
Discount securities	**960,482**	2,708,434	**960,482**	2,708,434
Corporate bonds	**-**	157,988	**-**	157,988
Covered bonds	**178,857**	284,556	**178,857**	284,556
Government bonds	**5,050,826**	3,436,802	**5,050,826**	3,436,802
Mortgage-backed securities	**28,805**	78,496	**28,805**	78,496
Total available for sale financial assets	**7,346,518**	7,426,949	**7,346,518**	7,426,949
Maturity analysis of available for sale financial assets				
Not longer than 3 months	**605,104**	1,476,568	**605,104**	1,476,568
Longer than 3 months and not longer than 1 year	**1,910,878**	2,255,951	**1,910,878**	2,255,951
Longer than 1 year and not longer than 5 years	**3,190,251**	2,628,958	**3,190,251**	2,628,958
Longer than 5 years	**1,640,285**	1,065,472	**1,640,285**	1,065,472
Total available for sale financial assets	**7,346,518**	7,426,949	**7,346,518**	7,426,949

With the exception of mortgage-backed securities where cash flows are determined by reference to the weighted average life, available for sale financial assets are payable at maturity and have no significant terms and conditions that may affect the amount, timing or certainty of future cash flows.

13. LOANS AND ADVANCES

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Retail loans	**37,806,554**	37,696,064	**37,806,554**	37,696,064
Commercial loans	**3,900,856**	3,333,347	**3,900,856**	3,333,347
Other loans – parent entity	**-**	-	**-**	-
– related entities	**95,065**	-	**95,065**	-
Gross loans and advances	**41,802,475**	41,029,411	**41,802,475**	41,029,411
Specific provision for impairment	**(36,057)**	(32,125)	**(36,057)**	(32,125)
	41,766,418	40,997,286	**41,766,418**	40,997,286
Collective provision for impairment	**(4,418)**	(9,440)	**(4,418)**	(9,440)
Total loans and advances	**41,762,000**	40,987,846	**41,762,000**	40,987,846
Maturity analysis of loans and advances				
Not longer than 3 months	**166,756**	85,761	**166,756**	85,761
Longer than 3 months and not longer than 1 year	**288,750**	544,704	**288,750**	544,704
Longer than 1 year and not longer than 5 years	**2,498,226**	1,891,848	**2,498,226**	1,891,848
Longer than 5 years	**37,828,152**	37,294,834	**37,828,152**	37,294,834
No maturity specified	**1,020,591**	1,212,264	**1,020,591**	1,212,264
Gross loans and advances	**41,802,475**	41,029,411	**41,802,475**	41,029,411

14. DERIVATIVES

Derivative contracts

Each derivative is classified for accounting purposes as "hedging" or as "other derivatives". Derivatives classified as hedging are derivative transactions entered into in order to manage the risks arising from non-traded assets and liabilities. The other derivatives are cross currency, interest rate and basis swaps that the Group entered into to economically hedge RMBS Notes issued. The fair value of other derivatives as at 31 December 2014 was an asset of $40.7 million and a liability of $6.4 million (2013: asset of $35.9 million and a liability of $5.0 million).

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

Derivatives designated and accounted for as hedging instruments

The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 2, "Significant Accounting Policies" where terms used in the following sections are explained.

Fair value hedges

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.

For the year ended 31 December 2014, a gain with ineffectiveness of $4.4 million (2013: loss of $0.8 million) was taken to the Income Statement. As at 31 December 2014, the fair value of outstanding derivatives designated as fair value hedges was $1.4 million (2013: $37.7 million) of assets and $346.0 million (2013: $161.2 million) of liabilities.

As at 31 December 2014, the net fair value of outstanding derivatives designated as fair value hedges was $344.5 million of net liabilities (2013: $123.4 million of net liabilities).

14. DERIVATIVES (CONTINUED)

Cash flow hedges

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

For the year ended 31 December 2014, there has been no material gain or loss associated with ineffective portions of cash flow hedges. Gains and losses on derivative contracts designated as cash flow hedges are initially recorded in comprehensive income in the cash flow hedge reserve but are reclassified to current period earnings upon maturity or termination of the contract.

As at 31 December 2014, the net fair value of outstanding derivatives designated as cash flow hedges was $93.2 million of net liabilities (2013: $34.2 million of net liabilities).

Consolidated		**2014**			**2013**	
amounts in thousands of dollars	**Face value**	**Fair value asset**	**Fair value liability**	Face value	Fair value asset	Fair value liability
Derivative assets and liabilities						
Hedging derivatives	**18,726,000**	**15,934**	**(453,622)**	18,876,621	48,281	(205,968)
Other derivative	**3,581,117**	**40,731**	**(6,428)**	4,541,746	35,868	(5,017)
Total derivative assets/(liabilities)	**22,307,117**	**56,665**	**(460,050)**	23,418,367	84,149	(210,985)
Derivatives designated as fair value hedges						
Interest rate swaps	**4,441,000**	**1,448**	**(345,983)**	3,971,700	37,722	(161,166)
Total fair value hedges	**4,441,000**	**1,448**	**(345,983)**	3,971,700	37,722	(161,166)
Derivatives designated as cash flow hedges						
Interest rate swaps	**14,285,000**	**14,486**	**(107,639)**	14,904,921	10,559	(44,802)
Total cash flow hedges	**14,285,000**	**14,486**	**(107,639)**	14,904,921	10,559	(44,802)
Other derivatives						
Cross currency swap	**126,792**	**34,053**	**-**	189,130	30,851	-
Basis swap	**2,349,784**	**256**	**(256)**	3,226,868	423	(423)
Interest rate swap	**1,104,541**	**6,422**	**(6,172)**	1,125,748	4,594	(4,594)
Total other derivatives	**3,581,117**	**40,731**	**(6,428)**	4,541,746	35,868	(5,017)
Total recognised derivative assets/(liabilities)	**22,307,117**	**56,665**	**(460,050)**	23,418,367	84,149	(210,985)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

14. DERIVATIVES (CONTINUED)

Bank	2014			2013		
amounts in thousands of dollars	**Face value**	**Fair value asset**	**Fair value liability**	Face value	Fair value asset	Fair value liability
Derivative assets and liabilities						
Hedging derivatives	**18,726,000**	**15,934**	**(453,622)**	18,876,621	48,281	(205,968)
Other derivatives	**1,677,163**	**1,551**	**(4,260)**	2,176,308	2,794	(2,222)
Total derivative assets/ (liabilities)	**20,403,163**	**17,485**	**(457,882)**	21,052,929	51,075	(208,190)
Derivatives designated as fair value hedges						
Interest rate swaps	**4,441,000**	**1,448**	**(345,983)**	3,971,700	37,722	(161,166)
Total fair value hedges	**4,441,000**	**1,448**	**(345,983)**	3,971,700	37,722	(161,166)
Derivatives designated as cash flow hedges						
Interest rate swaps	**14,285,000**	**14,486**	**(107,639)**	14,904,921	10,559	(44,802)
Total cash flow hedges	**14,285,000**	**14,486**	**(107,639)**	14,904,921	10,559	(44,802)
Other derivatives						
Cross currency swaps	**-**	**-**	**-**	-	-	-
Basis swaps	**1,174,892**	**256**	**-**	1,613,434	423	-
Interest rate swaps	**502,271**	**1,295**	**(4,260)**	562,874	2,371	(2,222)
Total other derivatives	**1,677,163**	**1,551**	**(4,260)**	2,176,308	2,794	(2,222)
Total recognised derivative assets/(liabilities)	**20,403,163**	**17,485**	**(457,882)**	21,052,929	51,075	(208,190)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

14. DERIVATIVES (CONTINUED)

Cash flow hedges	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Fair value of hedge instruments	**(93,152)**	(34,243)	**(93,152)**	(34,243)
Amount recognised in comprehensive income during the period (net of tax)	**(41,398)**	16,729	**(41,398)**	16,729

The Group enters derivative contracts to hedge pools of underlying assets or liabilities in macro cash flow hedge relationships. As at 31 December 2014, the cash flow hedge portfolios contained derivatives of varying maturities up to 8.6 years with the largest concentration in the range of 1.5 to 2.5 years. For the year ended 31 December 2014, the Group recognised a $41.4 million loss (2013: $16.7 million gain) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2014 was negative $65.4 million (2013: negative $24.0 million) after deferred tax.

Fair value hedges	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Fair value of hedge instruments	**(344,536)**	(123,444)	**(344,536)**	(123,444)
Current year losses on hedging instruments	**(183,234)**	(40,124)	**(183,234)**	(40,124)
Fair value of hedged items	**4,133,293**	1,890,324	**4,133,293**	1,890,324
Current year gains on hedged items	**187,647**	39,308	**187,647**	39,308
Hedge ineffectiveness	**4,413**	(816)	**4,413**	(816)

15. RECEIVABLES AND OTHER ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Accrued interest receivable	**147,460**	141,039	**145,545**	133,107
Sundry debtors and other assets	**71,083**	60,243	**70,799**	55,749
Total receivables and other assets	**218,543**	201,282	**216,344**	188,856

Receivables and other assets are expected to be received in the next 12 months.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w)

16. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Property, plant and equipment at cost	**207,053**	181,758	**207,053**	181,758
Accumulated depreciation and amortisation	**(160,295)**	(143,466)	**(160,295)**	(143,466)
Total property, plant and equipment	**46,758**	38,292	**46,758**	38,292
Mainframe computers & computer equipment				
Opening balance	**2,706**	4,352	**2,706**	4,352
Additions	**2,946**	1,944	**2,946**	1,944
Depreciation	**(2,179)**	(3,590)	**(2,179)**	(3,590)
Closing balance	**3,473**	2,706	**3,473**	2,706
Personal computers				
Opening balance	**1,300**	1,561	**1,300**	1,561
Additions	**152**	136	**152**	136
Depreciation	**(285)**	(397)	**(285)**	(397)
Closing balance	**1,167**	1,300	**1,167**	1,300
Computer software				
Opening balance	**28,185**	10,602	**28,185**	10,602
Additions	**21,758**	23,588	**21,758**	23,588
Depreciation	**(12,578)**	(6,005)	**(12,578)**	(6,005)
Closing balance	**37,365**	28,185	**37,365**	28,185
Leasehold improvements				
Opening balance	**6,034**	7,122	**6,034**	7,122
Additions	**438**	610	**438**	610
Depreciation	**(1,772)**	(1,698)	**(1,772)**	(1,698)
Closing balance	**4,700**	6,034	**4,700**	6,034
Motor vehicles				
Opening balance	**67**	80	**67**	80
Depreciation	**(14)**	(13)	**(14)**	(13)
Closing balance	**53**	67	**53**	67

17. INTANGIBLES

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
New Payment Platform Licence	**790**	-	**790**	-
Total Intangibles	**790**	-	**790**	-

18. DEPOSITS AND OTHER BORROWINGS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Deposits				
Deposits at call	**19,020,805**	17,381,294	**19,137,554**	17,403,132
Term deposits[1]	**22,032,178**	20,435,180	**22,032,178**	20,435,180
Certificates of deposits	**413,967**	1,812,363	**413,967**	1,812,363
Collateral deposits	-	12,720	-	12,720
Securities sold under agreement to repurchase	**305,255**	451,674	**305,255**	451,674
Deposits and other borrowings	**41,772,205**	40,093,231	**41,888,954**	40,115,069
Maturity analysis of deposits				
At-call	**19,326,060**	17,394,162	**19,442,809**	17,416,000
Not longer than 3 months	**9,006,926**	9,095,097	**9,006,926**	9,095,097
Longer than 3 months and not longer than 1 year	**10,967,344**	9,713,826	**10,967,344**	9,713,826
Longer than 1 year and not longer than 5 years	**3,309,055**	4,403,081	**3,309,055**	4,403,081
Total undiscounted deposits	**42,609,385**	40,606,166	**42,726,134**	40,628,004

[1] Term deposits include pass through funding from ING Bank N.V. (Sydney Branch) of $8.2b (2013: $6.1b) with the remainder of pass through funding of $0.1b in deposits at call.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w)

The variance between the total deposits and other borrowings and the total of the maturity analysis of deposits and other borrowings is the difference between the undiscounted cash flows to maturity and the carrying value, which is amortised using a methodology that is in line with the effective interest rate method.

Deposits which were previously grouped within related bodies corporate and other financial institutions are now classified into deposits at call, term deposits, certificates of deposits and securities sold under agreement to repurchase. Deposits which were previously classified as on demand and short term deposits are now classified in deposits at call and term deposits.

19. CREDITORS AND OTHER LIABILITIES

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Accrued interest payable				
Related bodies corporate	**66,773**	37,045	**59,762**	35,654
Other persons or corporations	**219,215**	281,918	**219,215**	281,918
Total accrued interest payable	**285,988**	318,963	**278,977**	317,572
Other liabilities				
Accrued expenses	**26,341**	29,651	**24,779**	28,222
Prepaid interest	**2,514**	2,150	**2,514**	2,150
Commitment fees	**2,416**	2,764	**2,416**	2,764
Income tax payable	**45,905**	22,862	**43,301**	23,690
Other	**76,478**	64,504	**77,131**	62,945
Total other liabilities	**153,654**	121,931	**150,141**	119,771
Total creditors and other liabilities	**439,642**	440,894	**429,118**	437,343

Creditors and Other liabilities are expected to be paid in the next 12 months.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w)

20. DEBT ISSUES

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Short term – not longer than 1 year to maturity				
Floating rate notes	**9,805**	141,580	**9,805**	141,580
Corporate bonds	**376,599**	153,358	**376,599**	153,358
Mortgage-backed securities	**-**	79,230	**-**	-
Intercompany payable to trust[1]	**-**	-	**3,376,638**	3,505,600
Total short term debt issues	**386,404**	374,168	**3,763,042**	3,800,538
Long term				
Floating rate notes	**-**	359,000	**-**	359,000
Corporate bonds	**-**	1,028,748	**-**	1,028,748
Mortgage-backed securities	**3,767,992**	3,768,136	**-**	-
Total long term debt issues	**3,767,992**	5,155,884	**-**	1,387,748
Total debt issues	**4,154,396**	5,530,052	**3,763,042**	5,188,286
Maturity analysis of debt issues [1]				
Not longer than 3 months	**422,587**	73,359	**422,587**	73,359
Longer than 3 months and not longer than 1 year	**104,421**	570,691	**104,421**	570,691
Longer than 1 year and not longer than 5 years	**3,848,473**	5,240,201	**3,848,473**	5,240,201
Longer than 5 years	**75,151**	152,057	**75,151**	152,057
Total undiscounted debt issues	**4,450,632**	6,036,308	**4,450,632**	6,036,308

[1] This relates to an imputed loan payable to the Trust's and hence excluded from the maturity analysis.

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

The variance between the total debt issues and the total of the maturity analysis of debt issues is the difference between the undiscounted cash flows to maturity and the carrying value, using a methodology that is in line with the effective interest rate method.

21. PROVISIONS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Annual leave	**5,929**	5,313	**5,929**	5,313
Long service leave	**7,270**	6,711	**7,270**	6,711
Other provisions	**3,780**	-	**3,780**	-
Provision for dividend	**275,000**	-	**275,000**	-
Total provisions	**291,979**	12,024	**291,979**	12,024
Provisions expected to be paid in the next 12 months	**281,622**	5,618	**281,622**	5,618

22. CONTRIBUTED EQUITY

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Issued and paid equity				
Ordinary voting shares	**1,284,000**	1,284,000	**1,284,000**	1,284,000
Ordinary non-voting shares	**50,000**	50,000	**50,000**	50,000
Total contributed equity	**1,334,000**	1,334,000	**1,334,000**	1,334,000

Consolidated	**2014**		2013	
Issued capital	**# of Shares**	**$ 000**	# of Shares	$ 000
Balance at beginning of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000
Issue of shares	**-**	**-**	-	-
Balance at end of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000

Bank	**2014**		2013	
Issued capital	**# of Shares**	**$ 000**	# of Shares	$ 000
Balance at beginning of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000
Issue of shares	**-**	**-**	-	-
Balance at end of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000

23. RESERVES

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Available for sale reserve				
Opening balance	**20,014**	12,390	**20,014**	12,390
Revaluation movement for the year, net of tax	**4,849**	16,762	**4,849**	16,762
Transfer of (gains)/loss on sale to net non-interest income	**(1,162)**	(13,054)	**(1,162)**	(13,054)
Tax on amount transferred to Income Statement	**349**	3,916	**349**	3,916
Total available for sale reserve	**24,050**	20,014	**24,050**	20,014

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. Fair values of quoted investments in active markets are based on current bid prices.

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Cash flow hedge reserve				
Opening balance	**(23,964)**	(40,693)	**(23,964)**	(40,693)
Revaluation movement for the year, net of tax	**(41,398)**	16,729	**(41,398)**	16,729
Total cash flow hedge reserve	**(65,362)**	(23,964)	**(65,362)**	(23,964)

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 hedge item is brought to account. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Income Statement.

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
General reserve				
Share-based payments				
Opening balance	**8,557**	7,113	**8,557**	7,113
Movement for the year, net of tax	**1,153**	1,444	**1,153**	1,444
Total share-based payments reserve	**9,710**	8,557	**9,710**	8,557
General reserve for credit losses				
Opening balance	**127,606**	130,944	**127,606**	130,944
Transfer (to)/from retained earnings	**2,190**	(3,338)	**2,190**	(3,338)
Total general reserve for credit losses	**129,796**	127,606	**129,796**	127,606
Total general reserve	**139,506**	136,163	**139,506**	136,163
Total reserves	**98,194**	132,213	**98,194**	132,213

24. RETAINED PROFITS

	Consolidated		Bank	
amounts in thousands of dollars	**2014**	2013	**2014**	2013
Retained profits				
Opening balance	**2,065,383**	1,790,580	**2,067,315**	1,790,580
Adjustment to prior period profit*	**-**	-	**-**	1,932
Profit for the year	**297,014**	271,465	**290,947**	271,465
Dividend provided for or paid	**(275,000)**	-	**(275,000)**	-
Transfer from/(to) general reserve	**(2,190)**	3,338	**(2,190)**	3,338
Closing balance	**2,085,207**	2,065,383	**2,081,072**	2,067,315

*Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities are determined using quoted market prices, where available. Market prices are obtained from independent market vendors, brokers, or market makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In certain markets that have become significantly less liquid or illiquid, the range of prices for the same security from different price sources can be significant. Selecting the most appropriate price within this range requires judgement. The choice of different prices could produce materially different estimates of fair value.

For certain financial assets and liabilities, quoted market prices are not available. For these financial assets and liabilities fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations, credit ratings) and customer behaviour. All valuation techniques used are subject to internal review and approval.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce materially different estimates of fair value.

Set out below is a comparison by category of the carrying amounts and fair values of the Group's financial instruments. The methodology and assumptions used in determining fair values are as below:

Cash and cash equivalents

The carrying amount of cash and cash equivalents is an approximation of fair value as they are 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 as they are short term in nature.

Accrued interest receivable

The carrying amount of accrued interest receivable is an approximation of fair value as it is short term in nature.

Available for sale investments

Available for sale investments are initially recognised at fair value including transaction costs. Fair values of quoted investments in active markets are based on current bid prices.

Loans and advances

The carrying value of loans and advances is net of collective and specific provisions for impairment. 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.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative assets

The fair value of swaps is calculated by utilising discounted cash flow models, based on the estimated future cash flows.

Deposits

For at-call deposits, the carrying amount is an approximation of fair value as they are 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.

Debt issues

The fair value of debt issues is calculated by utilising discounted cash flow models, based on the estimated future cash flows.

Derivative liabilities

The fair value of swaps is calculated by utilising discounted cash flow models, based on the estimated future cash flows.

Creditors and other liabilities

The carrying amount of creditors and other liabilities is an approximation of fair value as they are short term in nature.

Summary

The following table provides a comparison of carrying and fair values for each item discussed above, where applicable:

Carrying and fair value comparison

Consolidated

amounts in thousands of dollars	**Carrying value 2014**	**Fair value 2014**	Carrying value 2013	Fair value 2013
Recognised Financial Assets				
Cash and cash equivalents	**808,287**	**808,287**	952,489	952,489
Due from other financial institutions	**368,338**	**368,338**	109,458	109,458
Available for sale financial assets	**7,346,518**	**7,346,518**	7,426,949	7,426,949
Loans and advances	**41,762,000**	**41,881,511**	40,987,846	41,040,706
Derivative assets	**56,665**	**56,665**	84,149	84,149
Accrued interest receivable	**147,460**	**147,460**	141,039	141,039
Recognised Financial Liabilities				
Deposits and other borrowings	**41,772,205**	**41,916,920**	40,093,231	40,319,106
Debt issues	**4,154,396**	**4,192,374**	5,530,052	5,513,768
Derivative liabilities	**460,050**	**460,050**	210,985	210,985
Accrued interest payable	**285,988**	**285,988**	318,963	318,963

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank

amounts in thousands of dollars	**Carrying value 2014**	**Fair value 2014**	Carrying value 2013	Fair value 2013
Recognised Financial Assets				
Cash and cash equivalents	**495,421**	**495,421**	610,858	610,858
Due from other financial institutions	**431,151**	**431,151**	172,247	172,247
Available for sale financial assets	**7,346,518**	**7,346,518**	7,426,949	7,426,949
Loans and advances	**41,762,000**	**41,881,511**	40,987,846	41,040,706
Derivative assets	**17,485**	**17,485**	51,075	51,075
Accrued interest receivable	**145,545**	**145,545**	133,107	133,107
Recognised Financial Liabilities				
Deposits and other borrowings	**41,888,954**	**42,033,668**	40,115,069	40,343,714
Debt issues	**3,763,042**	**3,764,854**	5,188,286	5,170,889
Derivative liabilities	**457,882**	**457,882**	208,190	208,190
Accrued interest payable	**278,977**	**278,977**	317,572	317,572

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

Methods applied in determining fair values of financial assets and liabilities

***Level 1* – Reference to published price quotations in active markets**

This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

***Level 2* – Valuation technique supported by market inputs**

This category includes financial instruments whose fair value is determined using a valuation technique (model), where inputs in the model are taken from an active market or are market observable. If certain inputs in the model are not market observable, but all significant inputs are, the instrument is still classified in this category, provided that the impact of those elements on the overall valuation is insignificant.

Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are (more than insignificantly) modified based on other market observable external data.

***Level 3* – Valuation technique not supported by market inputs**

This category includes financial assets and liabilities whose fair value is determined using a valuation technique (model) for which more than an insignificant level of the input in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to indicative quotes but for which the market is considered inactive.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the fair values of the Group's financial assets and liabilities for which the fair value is disclosed. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent and should not be construed as representing the underlying value of the Group.

Consolidated - 31 December 2014

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial instruments – assets				
Assets measured at fair value:				
Derivative assets				
Interest rate swaps	-	22,356	-	22,356
Cross currency swaps	-	34,053	-	34,053
Basis swaps	-	256	-	256
Total derivative assets	-	56,665	-	56,665
Available for sale financial assets				
Debt securities issued by Banks	1,070,831	516,409	-	1,587,240
Debt securities issued by Governments	5,050,826	679,647	-	5,730,473
Mortgage-backed securities	-	26,553	2,252	28,805
Total available for sale financial assets	6,121,657	1,222,609	2,252	7,346,518
Assets for which fair values are disclosed:				
Loans and advances	-	-	41,881,511	41,881,511
Total loans and advances	-	-	41,881,511	41,881,511
Total financial instruments – assets	6,121,657	1,279,274	41,883,763	49,284,694
Financial instruments – liabilities				
Liabilities measured at fair value:				
Derivative liabilities				
Interest rate swaps	-	(459,794)	-	(459,794)
Basis swaps	-	(256)	-	(256)
Total derivative liabilities	-	(460,050)	-	(460,050)
Liabilities for which fair values are disclosed:				
Deposits and other borrowings	(19,020,805)	(717,098)	(22,179,017)	(41,916,920)
Total deposits and other borrowings	(19,020,805)	(717,098)	(22,179,017)	(41,916,920)
Debt issues	-	(4,192,374)	-	(4,192,374)
Total debt issues	-	(4,192,374)	-	(4,192,374)
Total financial instruments – liabilities	(19,020,805)	(5,369,522)	(22,179,017)	(46,569,344)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank - 31 December 2014

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial instruments – assets				
Assets measured at fair value:				
Derivative assets				
Interest rate swaps	-	17,229	-	17,229
Cross currency swaps	-	-	-	-
Basis swaps	-	256	-	256
Total derivative assets	-	17,485	-	17,485
Available for sale financial assets				
Debt securities issued by Banks	1,070,831	516,409	-	1,587,240
Debt securities issued by Governments	5,050,826	679,647	-	5,730,473
Mortgage-backed securities	-	26,553	2,252	28,805
Total available for sale financial assets	6,121,657	1,222,609	2,252	7,346,518
Assets for which fair values are disclosed:				
Loans and advances	-	-	41,881,511	41,881,511
Total loans and advances	-	-	41,881,511	41,881,511
Total financial instruments – assets	6,121,657	1,240,094	41,883,763	49,245,514
Financial instruments – liabilities				
Liabilities measured at fair value:				
Derivative liabilities				
Interest rate swaps	-	(457,882)	-	(457,882)
Basis swaps	-	-	-	-
Total derivative liabilities	-	(457,882)	-	(457,882)
Liabilities for which fair values are disclosed:				
Deposits and other borrowings	(19,137,553)	(717,098)	(22,179,017)	(42,033,668)
Total deposits and other borrowings	(19,137,553)	(717,098)	(22,179,017)	(42,033,668)
Debt issues	-	(3,764,854)	-	(3,764,854)
Total debt issues	-	(3,764,854)	-	(3,764,854)
Total financial instruments – liabilities	(19,137,553)	(4,939,834)	(22,179,017)	(46,256,404)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

In the current period, the Group's valuation methodology has been revised whereby certain Level 2 instruments are now valued with quoted prices and yields and hence are classified to Level 1.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated - 31 December 2013

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial instruments – assets				
Assets measured at fair value:				
Derivative assets				
Interest rate swaps	-	52,875	-	52,875
Cross currency swaps	-	30,851	-	30,851
Basis swaps	-	423	-	423
Total derivative assets	-	84,149	-	84,149
Available for sale financial assets				
Debt securities issued by Banks	-	3,787,822	-	3,787,822
Debt securities issued by Governments	-	3,560,631	-	3,560,631
Mortgage-backed securities	-	78,496	-	78,496
Total available for sale financial assets	-	7,426,949	-	7,426,949
Assets for which fair values are disclosed:				
Loans and advances	-	-	41,040,706	41,040,706
Total loans and advances	-	-	41,040,706	41,040,706
Total financial instruments – assets	-	7,511,098	41,040,706	48,551,804
Financial instruments – liabilities				
Liabilities measured at fair value:				
Derivative liabilities				
Interest rate swaps	-	(210,562)	-	(210,562)
Basis swaps	-	(423)	-	(423)
Total derivative liabilities	-	(210,985)	-	(210,985)
Liabilities for which fair values are disclosed:				
Deposits and other borrowings	(17,394,134)	(2,253,832)	(20,671,140)	(40,319,106)
Total deposits and other borrowings	(17,394,134)	(2,253,832)	(20,671,140)	(40,319,106)
Debt issues	-	(5,513,768)	-	(5,513,768)
Total debt issues	-	(5,513,768)	-	(5,513,768)
Total financial instruments – liabilities	(17,394,134)	(7,978,585)	(20,671,140)	(46,043,859)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank - 31 December 2013

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial instruments – assets				
Assets measured at fair value:				
Derivative assets				
Interest rate swaps	-	50,652	-	50,652
Basis swaps	-	423	-	423
Total derivative assets	-	51,075	-	51,075
Available for sale financial assets				
Debt securities issued by Banks	-	3,787,822	-	3,787,822
Debt securities issued by Governments	-	3,560,631	-	3,560,631
Mortgage-backed securities	-	78,496	-	78,496
Total available for sale financial assets	-	7,426,949	-	7,426,949
Assets for which fair values are disclosed:				
Loans and advances	-	-	41,040,706	41,040,706
Total loans and advances	-	-	41,040,706	41,040,706
Total financial instruments – assets	-	7,478,024	41,040,706	48,518,730
Financial instruments – liabilities				
Liabilities measured at fair value:				
Derivative liabilities				
Interest rate swaps	-	(208,190)	-	(208,190)
Basis swaps	-	-	-	-
Total derivative liabilities	-	(208,190)	-	(208,190)
Liabilities for which fair values are disclosed:				
Deposits and other borrowings	(17,418,742)	(2,253,832)	(20,671,140)	(40,343,714)
Total deposits and other borrowings	(17,418,742)	(2,253,832)	(20,671,140)	(40,343,714)
Debt issues	-	(5,170,889)	-	(5,170,889)
Total debt issues	-	(5,170,889)	-	(5,170,889)
Total financial instruments – liabilities	(17,418,742)	(7,632,911)	(20,671,140)	(45,722,793)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

The estimated fair values correspond with the amounts at which the financial instruments at our best estimate could have been traded at the balance sheet date between knowledgeable, willing parties in arms-length transactions. Where available, the fair value of financial assets and liabilities is based on quoted market prices.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Transfers between Level 2 and Level 3

Following a credit review during the financial year one mortgage-backed security was reclassified from Level 2 to Level 3. For accounting purposes, transfers between levels of the fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

Mortgage-backed securities

The fair values of investments in mortgage-backed securities, for which there is currently no active market, are calculated using a valuation model which is accepted in the industry. The model uses discounted cash flow analysis which incorporates both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices. Unobservable inputs include assumptions regarding weighted average life and credit spreads.

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 other changes in valuation techniques during the year.

Consolidated and Bank – 31 December 2014

Quantitative information of significant unobservable inputs – Level 3:

Description	2014 $000	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities	2,252	DCF Method	WAL[1]	1.7 - 3.3 years
			Credit spread	97 – 300bps

[1] Weighted Average Life

Consolidated and Bank – 31 December 2014

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

Description	Input	Sensitivity used [2]	Effect on fair value $000
Mortgage-backed securities	WAL[1]	+/-10%	+/- 12
	Credit spread	+/-10%	+/- 3.6

[2] The sensitivity analysis refers to a percentage amount added or deducted from the input and the effect this has on the fair value.

Significant increases/(decreases) in the discount in isolation would result in a significantly (lower)/higher fair value measurement. Significant increases/(decreases) in default rates in isolation would result in a significantly (lower)/higher fair value measurement.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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

26. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

Consolidated

2014	Effects of offsetting on the balance sheet			Related amounts not offset		
amounts in thousands of dollars	Gross amount	Gross amounts set-off in the balance sheet	**Net amounts presented in the balance sheet**	Amounts subject to master netting arrangements	Financial instrument collateral	**Net Amount**
Financial assets						
Derivative financial instruments	**56,665**	-	**56,665**	**22,612**	-	**34,053**
Total	**56,665**	-	**56,665**	**22,612**	-	**34,053**
Financial liabilities						
Deriviative financial instruments	**(460,050)**	-	**(460,050)**	**22,612**	**368,338**	**(69,100)**
Total	**(460,050)**	-	**(460,050)**	**22,612**	**368,338**	**(69,100)**

2013						
amounts in thousands of dollars	Gross amount	Gross amounts set-off in the balance sheet	**Net amounts presented in the balance sheet**	Amounts subject to master netting arrangements	Financial instrument collateral	**Net Amount**
Financial assets						
Derivative financial instruments	84,149	-	84,149	40,578	12,720	30,851
Total	84,149	-	84,149	40,578	12,720	30,851
Financial liabilities						
Deriviative financial instruments	(210,985)	-	(210,985)	40,578	109,458	(60,950)
Total	(210,985)	-	(210,985)	40,578	109,458	(60,950)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

26. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Bank

2014

amounts in thousands of dollars	Effects of offsetting on the balance sheet: Gross amount	Gross amounts set-off in the balance sheet	**Net amounts presented in the balance sheet**	Related amounts not offset: Amounts subject to master netting arrangements	Financial instrument collateral	**Net Amount**
Financial assets						
Derivative financial instruments	17,485	-	17,485	17,485	-	-
Total	17,485	-	17,485	17,485	-	-
Financial liabilities						
Deriviative financial instruments	(457,882)	-	(457,882)	17,485	368,338	(72,059)
Total	(457,882)	-	(457,882)	17,485	368,338	(72,059)

2013

amounts in thousands of dollars	Gross amount	Gross amounts set-off in the balance sheet	**Net amounts presented in the balance sheet**	Amounts subject to master netting arrangements	Financial instrument collateral	**Net Amount**
Financial assets						
Derivative financial instruments	51,075	-	51,075	38,355	12,720	-
Total	51,075	-	51,075	38,355	12,720	-
Financial liabilities						
Deriviative financial instruments	(208,190)	-	(208,190)	38,355	109,458	(60,377)
Total	(208,190)	-	(208,190)	38,355	109,458	(60,377)

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

27. SEGMENT REPORTING

The Group has three operating segments being *Mortgages*, *Savings* and *Commercial Loans*. The segments have been identified based on internal reports that are reviewed and used by the Executive Committee in assessing performance and in determining the allocation of resources. Under the current organisational structure, *Mortgages* and *Savings* are both managed within the Customer Propositions and Customer Delivery businesses. The types of products and services derived by each business segment are as embedded in the names of the business segments.

The Head of each segment is a member of the Executive Committee. The Board sets the performance targets, approves and monitors the budgets prepared by the divisions. The divisions formulate strategic, commercial and financial policy in conformity with the overall strategy and performance targets set by the Board.

Operating income materially comprises of a combination of transactions directly identifiable to each of the segments and internal transfer pricing. Transfer pricing is set on an arm's length basis for inter-segment transactions. Allocation of expenses is a combination of directly identifiable allocation and segment weighting.

Consolidated

Year ended 31 December 2014

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Total
Operating income	**338,768**	**248,656**	**72,095**	**659,519**
Loan loss provisioning	**(24)**	**-**	**(4,603)**	**(4,627)**
Allocated expenses	**(93,683)**	**(125,774)**	**(9,644)**	**(229,101)**
Net segment earnings	**245,061**	**122,882**	**57,848**	**425,791**
Reportable segment assets and liabilities				
Loans and advances	**37,795,169**	**-**	**3,966,831**	**41,762,000**
Deposits and other borrowings	**-**	**33,525,371**	**-**	**33,525,371**

Year ended 31 December 2013

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Total
Operating income	337,086	212,136	64,815	614,037
Loan loss provisioning	(4,901)	-	(7,667)	(12,568)
Allocated expenses	(88,488)	(119,241)	(7,774)	(215,503)
Net segment earnings	243,697	92,895	49,374	385,966
Reportable segment assets and liabilities				
Loans and advances	37,682,352	-	3,305,494	40,987,846
Deposits and other borrowings	-	30,833,245	-	30,833,245

Consolidated

amounts in thousands of dollars	2014	2013
Net segment earnings	**425,791**	385,966
Income tax expense	**(128,777)**	(114,501)
Profit for the year	**297,014**	271,465

28. RISK MANAGEMENT

Introduction

Taking measured risks is the core of the Group's business. The Group operates with a reasonable business strategy aligned with an approved risk appetite, robust governance and risk management arrangements and adequate capital. Regulatory requirements are by their nature, minimum and the Group operates at a safe distance from that minimum in the normal course of business. The Group focuses predominantly on retail banking (predominantly mortgage lending and has plans to expand into consumer finance and SME in the short to medium term). However the Group has a capped exposure to real estate financing projects (both construction funding and financing of income producing real estate) and growing exposure to infrastructure financing and other forms of cash flow based financing to large corporates and institutional investors. The Group also maintains an investment book, however this portfolio is only for the purpose of ensuring that the Group has sufficient access to liquidity to meet its obligations as and when they become due. 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 key objective of the Group's risk management framework are:

- To ensure that the risk management objectives are linked to the Group's business strategy 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; and
- To ensure that the documentation for the risk management framework and supporting policies, procedures, tools and systems are kept accurate and current.

The mission of the Group's risk management function is to have a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. The mission is fully embedded in the Group's business processes. The following principles support this mission:

- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- An effective risk governance model supports risk based decision making and oversight across all operations containing appropriate checks and balances;
- A transparent risk profile is maintained, managed to avoid surprises, and is consistent with delegated authorities and with the overall strategy and risk appetite of the Group;
- Use of stress testing and sensitivity analysis to support the Board and Management with respect to strategic and capital planning, providing insight into vulnerabilities of the organisation, given certain assumptions related to the domestic and global economy, financial markets and geo-political factors. This is also used to assess whether the risk profile of the Group is in line with risk appetite and capital levels;
- Maintenance of a framework of risk management policies, procedures and standards;
- All risk models are built according to internal risk modelling standards and model life cycle, in line with regulatory requirements and subject to annual review and independent validation, with the recognition that there are uncertainties, limitations and assumptions attached to the models;
- Performance management process is in place ensuring alignment with the short-term and long-term strategy and which ensures appropriate risk management behaviours (including broker remuneration); and
- Transparent communication to internal and external stakeholders on risk management and value creation.

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. 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

The Group's risk governance framework provides 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. Separation and segregation from the management structure is essential to the effective governance of the Group's market and balance sheet management activities. The governance structure is described below.

28. RISK MANAGEMENT (CONTINUED)

Board risk oversight

Ultimate control over the strategy and risk appetite and policy settings of the Group rests with the Board. 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 by the Board and agreeing and recommending a risk management strategy and framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Group's risk/return expectations, includes:

  - High-level risk management policies for each of the risk areas it is responsible for overseeing;
  - A set of risk limits to manage exposures and risk concentrations (large exposures);
  - A stress-testing framework; and
  - Risk appetite framework.

  The BRC approves the internal capital adequacy assessment process ("ICAAP") and in doing so reviews the outcomes of enterprise wide stress testing, sets the preferred capital ranges for regulatory capital and reviews and monitors capital levels for consistency with the Group's risk appetite. The BRC also makes recommendations on the key policies relating to capital (that underpin the ICAAP) and liquidity and funding, which are overseen and reviewed by the Board on at least an annual basis.

  The BRC also provides relevant periodic assurances to the Board Audit Committee regarding the operational integrity of the risk management framework and refers to other Board Committees any matters that come to the attention of the BRC that are relevant for those respective Board Committees.

  In overseeing the risk framework and through its dialogues with the risk leadership team and executive management, the BRC also monitors the health of the Group's risk culture and reports any significant issues to the Board. To allow it to form a view on the independence of the function, the BRC meets with the Chief Risk Officer ("CRO") at the will of the Committee. The CRO has a regular and unfettered access to the BRC.

  The BRC reviews the performance and objectives setting of the CRO and has oversight of the appointment and removal of the CRO.

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

- *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. It also ensures compliance with the requirements of regulatory and governance bodies.

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" governance 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 business departments form the first line of defence. They originate assets and liabilities, they know the customers well and are best placed to act in both the customers' and the Group's interest. Risk is best managed at the place it occurs; therefore business managers are responsible for managing the risks for their business.This includes implementing approaches to proactively manage their risk within risk appetite levels and using risk management outcomes ("the costs of risks") and considerations as part of their day-to-day business making processes. They are to establish and maintain all appropriate risk controls.

28. RISK MANAGEMENT (CONTINUED)

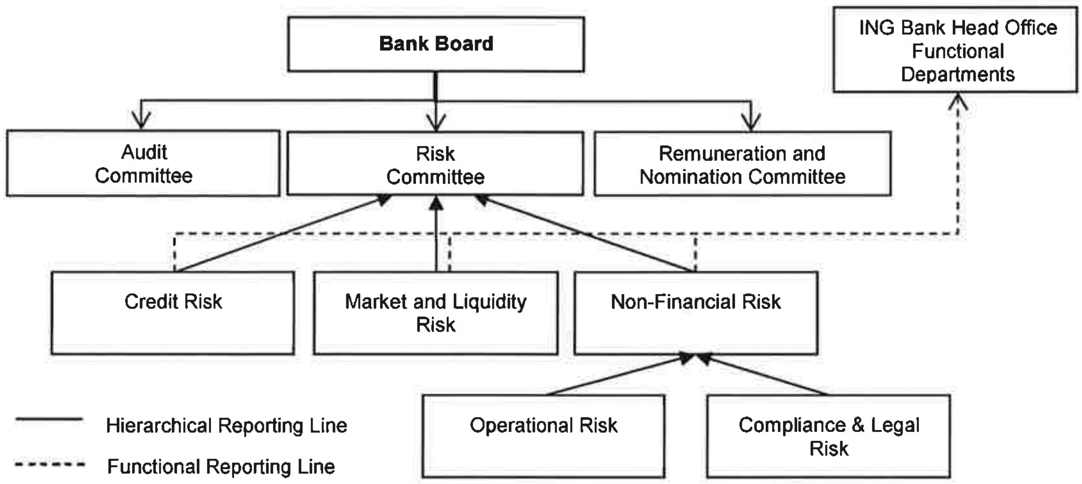
The second line of defence consists of the risk management organisation. The risk management organisation provides independent risk management expertise and oversight for business departments' risk-taking activities. The risk management function(s) support the commercial departments in their decision making but also have sufficient countervailing power to prevent risk concentration and other forms of excessive risks. The risk management function is responsible to ensure policies, procedures and standards are implemented and ensure they are embedded and in use as part of the day-to-day management of the business departments. The risk function also develops frameworks, policies, procedures and standards for risk management and these are regularly reviewed and updated to reflect changes in markets, products and emerging market trends. Risk management also measures risk exposures to support risk decisions by business owners and also to make certain market and credit risk decisions under approved delegations of authority; in particular it undertakes quantitative and qualitative analysis of the credit exposures originated by the business as part of its responsibility for credit rating and decisioning. The risk management function also evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies.

The internal audit function provides an on-going independent (i.e. outside the risk organisation) and objective assessment of the effectiveness of the internal controls of the first two lines of defence (including financial and non-financial risk management) and forms the third line of defence. Specifically, with respect to the risk management framework and in compliance with CPS 220 *Risk Management*, internal and/or external audit will annually review components of the framework covering compliance and effectiveness of the risk management framework. The structure of the review program is at the discretion of internal audit (and the approval of the Audit Committee of the Board). However all the elements of the risk management framework need to be reviewed at least every three years. The results of the reviews are to be reported to the Board Audit Committee.

The "three lines of defence" governance model is summarised in the following diagram:

Figure 2: ING three lines of defence model

28. RISK MANAGEMENT (CONTINUED)



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 function 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 on 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 ("FRC")* 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.

Risk policies

The various risk management functions have each designed and issued a framework of risk management policies and procedures providing local guidance on how to identify, measure, monitor and mitigate risk. Policies and procedures are regularly reviewed and updated via the relevant risk committees with annual Board approval.

Risk measurement

The major risk categories associated with the volume and variety of financial instruments that the Group uses are credit, market, liquidity, operational (including fraud, information and security risks) and compliance risk. In the following sections below, the Group's risk management activities are described with respect to these risk categories. Each risk category describes the types of risk managed and the applicable risk measurement method that the Group practices, including quantification of the risks.

28. RISK MANAGEMENT (CONTINUED)

CREDIT RISK

Credit risk is the risk of potential loss from default by debtors or counterparties. Credit risk arises in the Group's lending, pre-settlement and investment activities. 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 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 UIP secured by residential and commercial securities. Wholesale investments and securities are mainly unsecured, with some secured lending in the form of covered bonds. 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.

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.

Risk classes: Group portfolio as a percentage of total outstandings

S&P Equivalent Rating	Risk Grading	2014	2013
AAA	1	**6.8**	3.9
AA	2-4	**23.4**	26.4
A	5-7	**8.8**	9.2
BBB	8-10	**34.0**	32.0
BB	11-13	**23.1**	24.2
B	14-16	**2.6**	3.0
CCC & Problem Grade	17-20	**1.3**	1.3
		100.0	100.0

The distribution of asset exposures by risk grading includes retail, commercial and wholesale investments. The Group maintains a portfolio of wholesale 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.

Settlement risk

Settlement risk arises when there is an exchange of value (funds and/or instruments) for the same or different value dates and receipt is not verified or expected until the Group has paid or delivered its side of the trade. The risk is that the Group delivers but does not receive delivery from the counterparty. Settlement risk can most commonly be contained and reduced by entering into transactions with delivery-versus-payment settlement methods, as is common with most clearing houses, or settlement netting agreements. Risk is further mitigated by operational procedures requiring trade confirmations to counterparties with all transaction details and entering internationally accepted documentation, such as International Swaps and Derivatives Association Master Agreements for derivative transactions.

Collateral policies

As with all financial institutions and banks in particular, the Group is in the business of taking credit risk. As such, 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 held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets.

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.

28. RISK MANAGEMENT (CONTINUED)

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the derivatives contracts. At 31 December 2014 and 2013, the fair values of the short-term deposits pledged were $368.3 million and $109.5 million, respectively. The counterparties have an obligation to return the securities to the Group. The Group holds no deposit in respect of derivative contracts as at 31 December 2014 (2013: $12.7 million).The Group has an obligation to repay the deposit to the counterparties upon settlement of the contracts. There are no other significant terms and conditions associated with the use of collateral. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. The Group immediately sells the assets that it takes possession of.

Problem loans

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.

There is no significant concentration of a particular type of loan structure in the watch-list, past due or the impaired loan portfolio.

The total residential mortgage portfolio 90 days past due as at the end of 2014 is 24 basis points of outstanding, which remains stable since 2013 (24 basis points). It remains below external benchmark indices.

Loans by credit quality

Consolidated and Bank	2014		2013	
amounts in thousands of dollars	**$ 000**	**%**	$ 000	%
Neither past due nor impaired	**40,834,795**	**97.7**	39,567,468	96.5
- of which: Residential	**37,015,619**	**88.6**	36,362,551	88.7
- of which: Commercial	**2,771,581**	**6.6**	2,778,166	6.8
- of which: Corporate	**1,047,595**	**2.5**	426,751	1.0
- Related entities	**95,065**	**0.2**	-	-
Past due but not impaired	**705,141**	**1.7**	1,243,957	3.0
Impaired	**167,474**	**0.4**	217,986	0.5
	41,802,475	**100.0**	41,029,411	100.0

Ageing analysis (past due but not impaired)

Consolidated and Bank	2014		2013	
amounts in thousands of dollars	**$ 000**	**%**	$ 000	%
Less than 1 payment past due	**493,898**	**70.0**	987,662	79.4
1 payment past due	**159,261**	**22.6**	188,587	15.2
2 payments past due	**51,983**	**7.4**	67,708	5.4
	705,142	**100.0**	1,243,957	100.0

28. RISK MANAGEMENT (CONTINUED)

Impaired loans by economic sector

Consolidated and Bank	2014		2013	
amounts in thousands of dollars	$ 000	%	$ 000	%
Private individuals	**89,718**	**53.6**	98,788	45.3
Construction & commercial real estate	**77,756**	**46.4**	119,198	54.7
	167,474	**100.0**	217,986	100.0

Risk concentration: Group portfolio, by economic sector

Consolidated and Bank in percentages	2014	2013
Construction & commercial real estate	**5.7**	5.7
Corporate	**2.1**	0.9
Financial institutions	**3.9**	7.9
Private individuals	**76.0**	76.3
Public administration	**12.3**	9.2
	100.0	100.0

Provision for impairment

	Consolidated	
amounts in thousands of dollars	2014	2013
Specific provisions		
Opening balance	**32,125**	78,793
Net movement in provision	**9,649**	15,972
Sub-total	**41,774**	94,765
Bad debts written off	**(5,717)**	(62,640)
Closing balance – specific provisions	**36,057**	32,125
Collective provisions		
Opening balance	**9,440**	12,844
Net movement in provision	**(5,022)**	(3,404)
Closing balance – collective provisions	**4,418**	9,440
Total provision for impairment	**40,475**	41,565

The Group recognises loan impairment where objective evidence is available that a loss event has occurred. Specific provision is made for loans which are individually assessed for impairment. The impairment is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement.

The following table lists the extent to which the exposure for each asset class is not covered by collateral in the event of default. This has been calculated as the total shortfall for those exposures that are not fully covered by collateral, as a consequence of revaluation. Loan loss provisions for these exposures with shortfall are sufficient to cover the shortfall for both residential and commercial loans.

For retail clients the Group has established clear criteria to determine whether a client is eligible for a modification or refinancing. Also, specific approval mandates are in place to approve the modifications, as well as procedures to manage, monitor and report the forbearance activities. These criteria, mandates and procedures are approved by local credit risk management. A one off provision charge of $1.6m was recognised in December 2014 to accommodate the new forbearance requirements as required from the European Banking Authority.

28. RISK MANAGEMENT (CONTINUED)

Exposure not mitigated by collateral by asset class	Consolidated	
in percentages	**2014**	2013
Residential loans	**0.05**	0.04
Commercial loans	**0.39**	0.28

Maximum credit risk exposure		Consolidated	
amounts in thousands of dollars		**2014**	2013
	Note		
Financial assets			
Cash and cash equivalents	10	**808,287**	952,489
Due from other financial institutions	11	**368,338**	109,458
Accrued interest receivable	15	**147,460**	141,039
Available for sale financial assets	12	**7,346,518**	7,426,949
Loans and advances	13	**41,762,000**	40,987,846
Derivative assets	26	**34,053**	30,851
Total		**50,466,656**	49,648,632
Off-Balance Sheet			
Undrawn loan commitments and bank accepted guarantees	33	**5,678,129**	5,687,894
Total maximum credit risk exposure		**56,144,785**	55,336,526

Comparative year amounts do not correspond to the 2013 financial statements and reflect adjustments made as detailed in Note 2 (w).

The maximum credit risk exposure for relevant items on the Balance Sheet is the Balance Sheet carrying value for the relevant financial asset. For the Off-Balance Sheet items, the maximum credit risk exposure is the maximum amount that could be required to be paid.

MARKET 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.

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

- Interest rate risk; and
- Foreign exchange risk.

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.

In the normal course of its business, the Group minimises the mismatches between the duration of interest rate sensitive assets and liabilities.

The term "interest rate risk" can be classified into three main categories:

- *Trading risk* – the risk that arises from dealing in interest rate instruments with the express purpose of generating income from their purchase and sale. Trading will typically involve multiple purchases and sales over a short time frame. Trading activities will normally be accounted for on a mark-to-market basis. *The Group does not trade and therefore this risk is not present within the Group;*
- *Behaviour risk* – the business activities of the Group give rise to assets and liabilities, both on and off-Balance Sheet. Most of these assets and liabilities have a contractual re-pricing profile, however, for certain assets and liabilities, the re-pricing profile may need to be determined through modelling and analysis (for example, non-maturity deposits, capital, non-performing loans and embedded interest rate options). The Group actively manages the potential model risk through a regular review process, frequent analysis, triggers and limits; and

28. RISK MANAGEMENT (CONTINUED)

- *Mismatch risk* – the contractual (or modelled) repricing profile of the Group's interest rate sensitive assets and liabilities gives rise to a net mismatch. One of the objectives of ALCO is to monitor, manage and minimise the net mismatch position of the Group. When the repricing profiles of all assets and liabilities are perfectly matched, the Group has no net exposure to movements in market interest rates. A perfect match of all interest rate sensitive assets and liabilities is nearly impossible. Therefore a residual mismatch position is managed and capital is allocated for the mismatched position.

Managing and monitoring interest rate risk

The type and level of mismatch interest rate risk of the Group is managed and monitored from two perspectives, being an economic value perspective and an earnings perspective. The most important of these measures are 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 policy 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 through the potential loss of earnings due to the current and forecast mismatch interest rate positions.

Interest rate risk analysis

amounts in thousands of dollars	**2014**	2013
EVS		
99th percentile portfolio economic value change plus basis and optionality risk	**(69,803)**	(57,301)
	Limit - 125,000	*Limit - 150,000*
EaR		
- 100bps Shock (Year 1)	**(4.9%)**	(2.7%)
+ 100bps Shock (Year 1)	**4.9%**	2.7%
Limit >= -20% of net interest income base case		

Assumptions underlying EVS and EaR

The methodology to determine EVS is based on the requirements in the APRA Prudential Standard (APS 117 "*Capital Adequacy: Interest Rate Risk in the Banking Book")* for interest rate risk in the banking book. This method is based on a distribution of portfolio economic values utilising 6 years of interest rate history and a 1 year holding period. The 99th percentile portfolio economic value is then compared to the current portfolio economic value using the actual rates at 31 December 2014.

The major assumptions that relate to the EaR measures for 31 December 2014 are:

- +/- 100bps instantaneous rate shock change in net interest income measured over the next 12 months; and
- The change in interest rates applied to the savings accounts is in line with modelled behaviour for non-maturity accounts.

Other key assumptions used to measure EaR are:

- Forecast growth in each product based on the approved product budget growth;
- Forecast market rates and margins applied to each product;
- Contractual maturity and repricing characteristics; and
- Forecast maturity of new business volumes.

28. 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 removed through hedging.

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

LIQUIDITY RISK

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

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

The liquidity strategy of the Group has four primary components:

- The first component is management of day to day funding. The objective is to ensure day to day funding requirements are adequately spread to avoid concentrations. The Treasury department manages all maturing cash flows and expected changes in core business funding requirements. This includes replenishment of existing funds as they mature, expected withdrawals from retail savings accounts and additional borrowings. Furthermore, access to the wholesale and capital markets is actively managed by regular debt issues and investor relations maintenance;
- The second component is the maintenance of an appropriate and diversified mix of funding sources. The Group aims for a well diversified funding mix in terms of instrument types and fund providers. The Group has a broad base of retail funding, which mainly consists of personal and business savings accounts. Although individuals with call accounts may withdraw their funds at any time, in aggregate they form a stable source of funding;
- The third component of the Group's liquidity strategy is to maintain an adequate portfolio of highly marketable assets that can be readily converted into cash to meet unexpected cash flows. The Group holds a diversified portfolio of government, bank and other securities. These marketable assets can provide liquidity through repurchase agreements or through sale; and
- The fourth component 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 are established for addressing 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 at times of crisis.

The Group's liquidity policy has been developed in accordance with the liquidity management policies of ING Groep N.V. and APRA prudential standards.

The Group has continued to experience strong growth in retail deposits and consistent access across the wholesale funding markets over the past year. Response to the Group's debt issuance continued to be strong. At 31 December 2014, approximately 66% of the Group's funding was provided by retail sources (2013: 62%) and 34% was provided by wholesale and other sources (2013: 38%).

At the end of 2011, following the release of the text of new rules on liquidity risk management ("Basel III") by the Basel Committee on Banking Supervision ("Basel Committee"), APRA released Prudential Standard APS 210 Liquidity as part of the coordinated global response to the Global Financial Crisis. The new requirements which are effective as of 1 January 2015, include a regulatory measure for the liquidity of authorised deposit-taking institutions (ADIs) in Australia, which compares the amount of liquid assets with a potential outflow over a one month period. ADIs subject to the Liquidity Coverage Ratio will be required to fully meet a 100 percent minimum ratio as from 1 January 2015. The current internal policy requires the Group to maintain a buffer of marketable liquid assets throughout the year. The level of cash & available for sale financial assets was $8.2 billion at 31 December 2014 (2013: $8.4 billion).

28. RISK MANAGEMENT (CONTINUED)

OPERATIONAL RISK

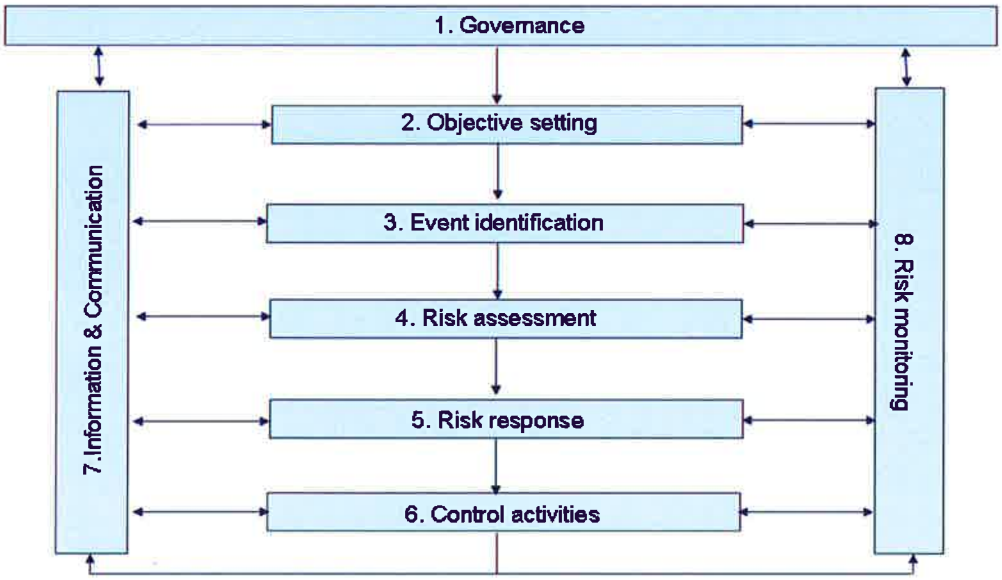
Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk resulting from operational risk events. Key areas of operational risk for the Group include fraud risk, information technology risk, compliance risk and processing risk. The Group has implemented a framework that facilitates the identification, assessment, measurement and control of operational risk across the business.

The Board and Risk Committee are responsible for establishing a risk appetite and policy in this area and for the ongoing oversight of operational risk. This process is supported by the NFRC.

The Group operates with three lines of defence model for the management of operational risk. The Operational Risk Management ("ORM") department is the second line of defence and is responsible for formulating the strategies, policies and structures for managing non-financial risk. The department also provides oversight, support and objectively challenges the first line of defence (the business lines) to optimise the risk and reward trade off. Internal Audit are the third line of defence in the model. Although they act in their separate roles, combined, the three lines serve to identify, manage, monitor and mitigate the risks the Group faces.

Management

A comprehensive operational risk framework is in place and operating across the Group. The framework is split into eight main activities and processes:



This framework supports and governs the process of identifying, mitigating, measuring and monitoring non-financial risks and is based on the following key principles:

1. Governance: Effectively organised and embedded risk management governance is the basis of the ORM Framework, including the three lines of defence, clear roles and responsibilities and effective management committees.
2. Objective Setting: Risk management activities must align with and support business objectives while defining and operating within an agreed risk appetite. A maturity model is in place to provide capability improvement goals.
3. Event Identification: Internal and external threats, vulnerabilities and associated risks are identified as potentially affecting the implementation of strategy and achievement of business objectives. Event identification is both forward looking through the use of external data as well as based on historical experience.
4. Risk Assessment: Risk assessments identify and measure, via probability and impact, the underlying risks applicable to (planned) activities of the organisation.
5. Risk Response: Unacceptable risks must be treated in a cost effective manner via reduction, avoidance, transfer or acceptance strategies. Response measures must be formally approved and tracked.

28. RISK MANAGEMENT (CONTINUED)

6. Control Activities: The day-to-day measures in place to manage risks formalised via policies, processes and procedures at all levels of the Group.
7. Information & Communication: Regular and timely risk reporting is undertaken to ensure management are aware of risks requiring focus. Awareness activities help maintain a risk aware and risk embedded culture and;
8. Risk Monitoring: Continuous monitoring of risks, controls and action plans is undertaken by all lines of defence. Testing helps ensure that the Group is operating within its target risk appetite.

The Group's operational risk framework has been developed based on ING Groep N.V. standards and APRA regulatory requirements.

COMPLIANCE RISK

Compliance risk is defined as the risk of impairment of ING Groep N.V.'s integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Groep N.V.'s policies and standards and the ING Bank Business Principles.

The Compliance Risk Management ("CRM") function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The function actively educates and supports the business in managing the compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interests, proper sales and trading conduct and protection of customer interest.

ING Groep N.V. separates compliance risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as financial conduct. ING Groep N.V. has a whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or business principles.

CRM Framework

The CRM framework consists of two key components:

- The CRM process

  The process has five key activities carried out in accordance with the requirements of the framework:
  - Identification of compliance risk obligations;
  - Risk assessment;
  - Compliance risk mitigation (includes training and education);
  - Compliance risk monitoring (includes action tracking); and
  - Compliance risk reporting (includes internal events reporting and response).

- Advisory

  Compliance officers proactively advise the CEO, management, local boards and committees, the next higher level compliance officer and employees on compliance risk, responsibilities, obligations and concerns.

29. CAPITAL MANAGEMENT

The Group is an Authorised Deposit-taking Institution and is subject to regulation by APRA under the authority of the Banking Act 1959. From 1 January 2013, APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel III Accord issued by the Basel Committee. The Group has been in compliance with the capital requirements imposed by APRA throughout the year. These requirements define what is acceptable as capital and provide for standard methods of measuring the risks incurred by the Group. 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.

29. CAPITAL MANAGEMENT (CONTINUED)

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 the defining, measuring, management, monitoring and governance of the Group's capital position. It includes the overall approach to capital management, including guiding principles as well as roles and responsibilities relating to capital adequacy and dividends. The 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 compromise 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. This includes incorporating potential capital transactions based on projected internal capital generation, business forecasts, market conditions and other developments, such as accounting and regulatory changes that may impact capital requirements. All the components of the capital plan are monitored throughout the year and are revised as appropriate.

Regulatory capital is divided into Common Equity Tier One, Total Tier One, Tier Two and Total Capital. Tier One capital primarily consists of shareholders' equity plus retained earnings. Tier Two capital primarily consists of the general reserve for credit losses. Certain adjustments are made from Common Equity Tier One Capital to arrive at the Capital Base.

The Group actively manages its capital to balance the requirements of various stakeholders (including regulators, rating agencies and shareholders). This is achieved by optimising the mix of capital while maintaining adequate capital ratios at all times.

Active capital management

Some of the factors that affect the level of required capital during the normal course of business are:

- Existing and forecasted risk profile and asset growth;
- The extent of the mismatch between the asset and liability duration;
- Strategy and growth plans and new business intiatives;
- The expected change in interest rates in the near term; and
- The changes in investment strategy.

To support these business activities and market effects, the Group actively manages its capital. The main focus of the Group's capital management policy is to ensure the Group maintains an adequate supply of capital for its existing and near term goals through anticipating when additional capital is required and ensuring an adequate buffer above regulatory requirements is always maintained.

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 capital

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 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.

In addition to the Standardised Approach, the Group also calculates the risk weighted assets based on the Basel III Advanced Approach under a parallel run regime for local purposes (APRA) and for consolidated results at Group level (Dutch National Bank) for credit, operational and market risk capital.

29. CAPITAL MANAGEMENT (CONTINUED)

Forecasting regulatory capital requirements

The Group's capital management policy requires regular forecasts of the effect on the Group's capital position of potential changes in credit risk profile, market conditions, of expected changes in asset and liability volumes and of any changes to the duration of the Balance Sheet.

- *Credit Risk weighted assets* - one of the major factors affecting the future capital requirement is asset growth as reflected through measured risk weighted assets. The projection of risk weighted assets is based on the risk profile and budgeted growth rates for retail and commercial loans and the strategic mix of wholesale assets that may be prescribed at different times under the direction of ALCO.
- *Market interest rates* - volatility in market interest rates plays an important role in the interest rate risk inherent in the Balance Sheet. The greater the volatility, the higher the potential move in rates over the future months and therefore the greater the potential change in market value of the assets and liabilities. The Group uses historical data to develop models to assess the potential impact of future interest rate changes on the market value of assets and liabilities.
- *Net duration of assets and liabilities* - the longer the duration of an asset or liability, the greater the change in market value for any given movement in market rates. The net duration of the Group's assets and liabilities will change as a result of both growth over time and also through the change in duration profile.

Surplus capital

Periodic scenario based stress tests allow the Group to assess capital adequacy under plausible but severe stressed conditions impacting the Balance Sheet across all risk types. This testing is done at a minimum once per annum.

The Group holds an amount of surplus capital over internal policy requirements to ensure that the capital buffer above the minimum capital requirement is sufficient to absorb unexpected events, which include unanticipated movements in market interest rates, rapidly worsening credit conditions and unexpected operational risk events.

Key Capital Indicators

	Consolidated	
amounts in thousands of dollars	**2014**	2013
Qualifying capital		
Tier 1		
Total equity	**3,517,401**	3,531,596
Reserve adjustments	**(139,506)**	(136,163)
Regulatory adjustments	**(38,145)**	(97,408)
Common Equity Tier 1	**3,339,750**	3,298,025
Additional Tier 1 Capital	**-**	-
Total Tier 1 qualifying capital	**3,339,750**	3,298,025
Tier 2		
General reserve for credit losses and collective provisioning	**134,214**	134,214
Total Tier 2 qualifying capital	**134,214**	134,214
Total regulatory capital	**3,473,964**	3,432,239
Total risk adjusted assets and Off-Balance Sheet exposures	**24,754,629**	25,034,388
Risk Weighted Capital Ratio	**14.0%**	13.7%

29. CAPITAL MANAGEMENT (CONTINUED)

Dividends

Dividend provided for or paid	2014	2013
Franked dividend for 2014: 20.6 cents per share (2013: Nil)	275,000	-
	275,000	-

30. ULTIMATE HOLDING ENTITY

ING Bank (Australia) Limited is the ultimate Australian holding company and its ultimate controlling entity is ING Groep N.V. which is incorporated in The Netherlands.

31. RELATED PARTY DISCLOSURES

Loans to entities in the wholly owned group

Aggregate amounts receivable comprise term loans, at-call loans, accrued interest and inter-company balances. Interest received was charged 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.

amounts in thousands of dollars	2014	2013
Aggregate amounts receivable from the ultimate controlling entity	-	-
Aggregate amounts receivable from related parties in the wholly owned group	404,123	281,450
Total	404,123	281,450

Loans from entities in the wholly owned group

Aggregate amounts payable comprise mainly deposits but could also comprise subordinated debt, certificates of deposit, accrued interest and inter-company balances. Interest was charged on subordinated debt and certificates of deposits on normal commercial terms throughout the year.

amounts in thousands of dollars	2014	2013
Aggregate amounts payable to the ultimate controlling entity	1,787	680
Aggregate amounts payable to related parties in the wholly owned group	8,486,037	6,098,655
Total	8,487,824	6,099,335

Other transactions with entities in the wholly owned group

The Group paid fees for expenses incurred for services rendered on behalf of entities in the wholly owned ING Groep N.V. Group.

amounts in thousands of dollars	2014	2013
Amounts paid or payable to the ultimate controlling entity	11,127	5,705
Amounts paid or payable to related bodies	35	35
Total	11,162	5,740

UIP deals entered into during the year were in conjunction with other ING related entities and were on commercial terms and cditions.

ING Bank N.V. (Sydney Branch) facilitated back-to-back interest rate derivatives between the Bank and the Trusts during the year.

Other intragroup transactions, which are on commercial terms, include the provision of management and administration services.

31. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with the controlled entities

Aggregate amounts receivable comprise of at-call loans, residential mortgage-backed securities and accrued interest. Interest received was charged 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.

	Bank	
amounts in thousands of dollars	**2014**	2013
Aggregate amounts receivable from the controlled entities	**1,212**	1,238

Loans to key management personnel and related entities

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 with key management personnel and related entities

Key management personnel and/or their related entities have entered into transactions of a domestic nature with the Group. These transactions include entering into mortgages and savings deposits which are on normal commercial terms.

Key management personnel remuneration is disclosed in Note 8.

32. CONTINGENT ASSETS AND LIABILITIES

Bank

amounts in thousands of dollars	**2014**	**2014**	2013	2013
	Unused	**Available**	Unused	Available
Liquidity facilities to related entities	**244,560**	**244,560**	345,300	345,300

The Bank has provided the following liquidity facilities to the Trusts:

- IDS Trust 2008-1: $187.5 million (2013: $286.9 million);
- IDOL Trust series 2010-1: $3.7 million (2013: $5.0 million);
- IDOL Trust series 2011-1: $5.2 million (2013: $7.2 million);
- IDOL Trust series 2011-2: $3.9 million (2013: $5.4 million);
- IDOL Trust series 2012-1: $5.1 million (2013: $6.9 million);
- IDOL Trust series 2012-2: $7.2 million (2013: $10.0 million);
- IDOL Trust series 2013-1: $7.7 million (2013: $11.1 million);
- IDOL Trust series 2013-2: $9.5 million (2013: $12.8 million); and
- IDOL Trust series 2014-1: $14.7 million (2013: nil).

There are no contingent assets and liabilities at the consolidated level.

33. COMMITMENTS

Irrevocable commitments to extend credit at call include:

- all obligations on the part of the Group to provide credit facilities; and
- bank accepted guarantees representing unconditional undertakings by the Group to support the obligations of its customers to third parties.

	Consolidated	
amounts in thousands of dollars	**2014**	2013
Commitments to extend credit		
- irrevocable commitments to extend credit	**5,667,482**	5,667,437
- bank accepted guarantees	**10,647**	20,457
Total commitments to extend credit	**5,678,129**	5,687,894
Operating leases – land & buildings *		
Lease payments due:		
- not later than 1 year	**10,492**	11,134
- later than 1 year and less than 5 years	**18,219**	28,675
- later than 5 years	**-**	-
Total minimum lease payments	**28,711**	39,809

*Operating leases are the leases of the premises the Group occupies at 140 Sussex Street (Sydney), 3 Reliance Drive (Tuggerah), 6 Reliance Drive (Tuggerah), 114 William St (Melbourne), 6-12 Hurtle Parade, Mawson Lakes (Adelaide), 100 Edward Street (Brisbane) and 474 Murray Street (Perth).

34. SUBSEQUENT EVENTS

On 12 March 2015, the Group sold a portfolio of residential mortgages and received consideration of $1.2 billion. As the transaction occurred after balance date the proceeds of the sale have not been recorded in the Financial Statements.

On 16 March 2015, the directors of the Group paid a dividend on ordinary shares in respect of the 2014 financial year. The total amount of the dividend payment of $275 million (2013: Nil) to ING Bank N.V., the parent, represents a fully-franked dividend of 20.6 cents per share.

Other than the matters mentioned above, no subsequent events or transactions have occurred since the year ended 31 December 2014 or are pending that would have a material effect on the Financial Statements.

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

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

   i) giving a true and fair view of the Group's financial position as at 31 December 2014 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 2; 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.

On behalf of the Board

Michael Katz
Chairman

Vaughn Richtor
Director

Sydney
20 March 2015

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

We have audited the accompanying financial report of ING Bank (Australia) Limited, which comprises the balance sheet as at 31 December 2014, the income statement and statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

a. the financial report of ING Bank (Australia) Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 31 December 2014 and of their performance for the year ended on that date; and

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

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

Ernst & Young

Ernst & Young

R.Balfour

Richard Balfour
Partner
Sydney
20 March 2014