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

2017

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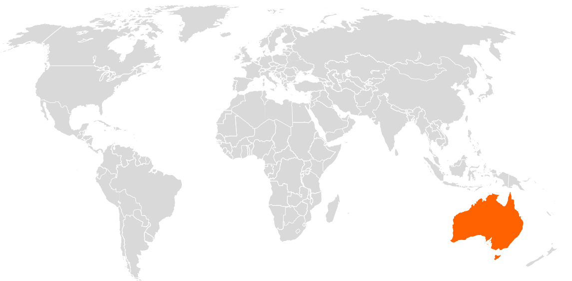
A snapshot of our business



Who we are

- ING Bank (Australia) Limited – trading as ING and wholly owned by ING Group
- Headquartered in Sydney, with a 24/7 contact centre in Tuggerah

2017 highlights

- Over 300,000 new customers
- Primary bank (main financial institution) customer numbers exceeded 410,000
- Launched Orange One credit card
- Orange Everyday at 852,029 accounts
- Launched Everyday Round Up, a digital savings feature
- Put an end to ATM fees globally and dropped our fees for international transactions made overseas or online

Our customers

- 1.36 million active customers
- #1 Net Promoter Score

Our people

- 1,178 employees

Our award highlights

- Money Magazine - Money Minder of the Year
- Australian Mortgage Awards - Non Major Bank of the Year
- SuperRatings - Gold Super and Pension 2017
- Customer Experience Award 2017 - Third Party Distribution team
- Mozo Expert's Choice Awards – Best Short Term Deposit

Our community

- Launched Gifts that Give, a Dreamstarter campaign designed to introduce new customers and the wider public to a range of social enterprises creating impact in our community
- Continued our support of the Cerebral Palsy Alliance through mentoring programs and raised more than $100,000 for the Steptember campaign

Financial highlights

Net profit after tax	Cost to income ratio	Capital adequacy ratio	Savings	Loans
$348m	40.5%	12.8%	$39,764m	$52,584m

CEO's report

2017 was a satisfying year for ING Australia with a record number of Australians commencing a relationship with us, and choosing us to achieve their financial goals. This positive growth tells me that we are on the right path to empowering our customers to stay a step ahead in life and in business.

More Australians than ever now call ING their main bank ('primary' customer relationships exceeded 410,000)

The strongest growth was in the number of customers who chose to make ING their main bank account by making regular deposits such as their salaries while using at least one other product. These 'primary' customers are core to our strategy of deepening customer relationships.

It was also pleasing to see that almost 40% of our new customer growth came from the recommendations of existing customers. Our industry leading Net Promoter Score (customers willing to recommend ING to family and friends) drove our highest ever growth in new-to-bank and primary bank customers.

We continued to gain market share in core portfolios of both savings and loans. Total savings grew by 8.3% and lending increased by 9.9%. Statutory net profit after tax was at $348m, an increase of 18% over 2016.

We ended the year with more than $52bn in loans and continue to be the country's 5th largest bank in household deposits and mortgages.

Empowering our customers

Our customers increasingly want to do their banking on the go, anytime and anywhere; they also want the digital tools to give them control over their finances and help them achieve their goals. We're using technology to revolutionise the banking experience and help our customers get ahead in life and business.

ING launched Everyday Round Up, a digital savings feature that helps people save money while spending. More than 66,000 customers activated the feature within the first 100 days and the amount saved exceeded $3.1m within that same period.

We saw that our primary bank customers were increasingly travelling overseas and purchasing online so we decided to put an end to ATM fees globally and dropped our fees for international transactions made overseas or online. We're proud that ING was the first bank in Australia to fully rebate ATM fees globally.

We brought Apple and Android Pay to our customers because they wanted easier connections with their existing digital lifestyle. In February 2017, we launched Apple Pay, with more than 20,000 customers downloading the payment service in the first two days. 25% of our customers with 'mobile wallets' now make mobile payments.

An ING credit card was the number one product that customers were asking for, and in 2017 we delivered Orange One. We set out to design a card that was socially responsible and had our customers' needs at heart. Orange One delivers control to our customers by giving them the option to 'flick' larger purchases to a personal loan with a lower interest rate and timed repayments. *Money Magazine* called Orange One "Australia's first ethical credit card" – a credit card that empowers people to demonstrate positive debt management behavior.

"Just wanted to say thanks for being an awesome bank. Whether I'm on holiday in Fiji or going down to the bowling club I can use any ATM for Free! You also offer Apple Pay. Thanks ING; I'm a very happy customer."

- ING Customer

Helping Australians save

We're making it easier for our customers to save and manage their money with high ongoing savings rates that are not subject to introductory time limits.

It was encouraging to see many of our customers take up our primary bank bundling offer to open a Savings Maximiser with their Orange Everyday.

Helping Australians own their homes sooner

We understand that owning a home is one of the biggest investments our customers make in their lifetime. We support our customers during this significant life experience by providing an optimised digital application process, competitive rates and lending responsibly.

In 2017, 28,964 new customers chose ING to help them move into, upgrade, invest or fund their home; resulting in a residential home lending growth of 8.3% in 2017.

In 2017, we were awarded winner of the Non Major Bank of the Year at the annual Australian Mortgage Awards. As a digital bank, broker partners are our 'shopfront' and an integral part of our business. Our broker channel empowers customers to choose the best solution for them. It places the onus on us to deliver the best solution so that brokers recommend us.

Wholesale Banking

In 2017 we continued to grow our wholesale banking portfolio focusing on financing much needed infrastructure for Australia's growing population. ING is a financier to projects like the Sydney Metro Northwest, New Royal Adelaide Hospital and the Clare Solar Farm in Queensland.

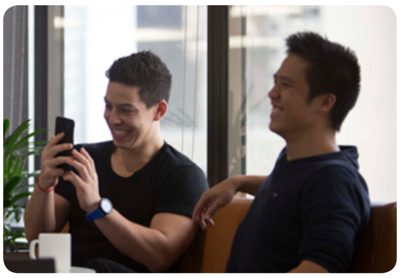
We plan to keep growing our lending to the wholesale banking sector leveraging ING's international network and industry expertise.

In 2017, globally ING announced it would accelerate the reduction of our financing to coal power generation, reducing our exposure to close to zero by 2025. In Australia we do not have any direct lending to coal-fired power plants with a bigger focus on sustainable energy projects.

Our People

At ING our 'Orange Code' organisational values and behaviours underpin our culture, and are reflected in all people processes and tools, including performance management. This includes the commitments we make to each other and the standards by which we measure each other's performance: we *take it on and make it happen, help others to be successful* and are *always a step ahead*. We promote a culture of integrity and collaboration, which is critical to keeping the customer at the centre of our decision making. Our ING Values are the non-negotiable promises we make to the world – we are *honest*, *prudent* and *responsible*. These are the principles we stick to - no matter what.

In 2017 we established an Inclusion & Diversity Council to formalise our agenda and continue to promote an inclusive and flexible workplace for all. Our colleague-led networks also stimulate diversity, like Gala - a community focused on LGBTI inclusion and Lioness – our talent programme supporting emerging female leaders to realise their ambitions.



Our Community

It is core for us to continually make a positive and meaningful impact in the community. We do this by supporting projects that address real community needs, using our skills and expertise to benefit our community partners.

Dreamstarter

Our Dreamstarter initiative empowers small businesses that tackle social issues to make a lasting contribution in their local community. To date, we've supported 70 Australian small businesses by providing funding and helping to raise their business profile.

In 2017, we launched Gifts that Give, a Dreamstarter campaign designed to introduce new customers and the wider public to a range of social enterprises supported by ING and encourage Australians to give a gift that gives back to the community. Through an integrated marketing campaign consisting of pop-up shop windows and billboards utilising NFC technology, digital and social media and customer communications, we helped deliver more than $30,000 in product sales over six weeks. With a large proportion of sales coming from ING customers.

"Gifts That Give has been a great way for us to generate awareness among a new market we wouldn't otherwise have the budget to reach. We've seen a very significant uplift in sales; in social enterprise, greater numbers means greater impact. Thank you ING!"

- Karina Seljak, Founder of 'Seljak', a Dreamstarter and Gifts that Give participant.

Cerebral Palsy Alliance

Through our long term partnership with the Cerebral Palsy Alliance we empower young people who have a disability, and their families to get ahead. We do this through a range of programs that provide therapy, equipment and foster social and economic inclusion.

Our sponsorship of the Conductive Education program aims to improve the long-term physical outcomes for young children with a disability that will in turn improve their potential independence in the future.

Our people volunteered time and skills to mentor teenagers in the Ignition Mentoring program aiming to improve their self-esteem and independence. We also supported the Transition to Work program which involves mentoring teenagers and young adults with disability to develop skills to enter the workforce.

In 2017, our people demonstrated their passion and commitment together raising almost $100,000 during the annual 'Steptember' fundraiser campaign, while challenging themselves to take 10,000 steps a day during September.

Thank you

Finally, I would like to thank our customers and our people for a successful year; my first full year as CEO.

It has been very satisfying for me to see ING delivering more control to customers and keeping to our purpose of empowering our customers to get ahead in life and business.

Thank you for your continued support.

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

Our approach to sustainability

At ING our purpose is to empower people to stay a step ahead in life and in business. We believe that our role as a financial institution is to support and encourage economic, social and environmental progress that leads to a better quality of life. Sustainability forms an integral part of our purpose and is embedded in our business.

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

Our approach to materiality

Global stakeholder surveys, customer feedback systems, mortgage broker roadshows, staff engagement surveys, regular meetings with industry regulators and industry benchmarks are the key mechanisms ING uses to listen to and act on the views of stakeholders.

The key material issues addressed in our Sustainability Report were determined based on input from these stakeholders.
Read more about our materiality process.

ING's approach to these material issues and our performance against internal targets is listed below:

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

ING empowers people by striving to make banking clear and easy, available anytime and anywhere and by making financial empowerment tools available to them so they better understand their financial needs and can make well informed financial decisions. We also recognise the importance of ensuring our customers can trust that their money and their personal information are secure with us.

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

- ***Confidence and trust earned through fair value for products and services***

Product and service related pricing decisions have a direct impact on customer satisfaction. When making decisions on interest rates and fee structures customers are placed at the centre of all decision-making to ensure products deliver long term value to customers. ING continues to attract the highest Net Promoter Score of any Australian Bank, substantiating our challenger positioning of Australia's most recommended bank* and leading to record customer growth above industry average for deposits and loans.

How we measure: Our target is to have the number one Net Promoter Score (NPS) across the industry.
How we did in 2017: ING continued to attract the highest Net Promoter Score of any Australian Bank, 22.6 at December 2017.

- ***Responsible lending and debt prevention***

ING is committed to responsible lending practices because we believe it delivers on our purpose of empowering customers to stay a step ahead in life and in business. We have a prudent policy framework to ensure customers have the appropriate type and level of debt. Read more about our approach to responsible lending.

How we measure: We aim to have our default rates below industry benchmarks.
How we did in 2017: ING's customer default rates have remained consistently below industry benchmarks in 2017.

* ING is "Australia's most recommended bank" according to Nielsen Consumer & Media View May'17- Oct'17 (n = 10,499) when compared to customers of 12 other banks operating in Australia.

▪ *System availability, data security and digital innovation*

System availability

As a leading digital bank, it is essential that our services are available to our customers anytime, anywhere. To mitigate risks of outages and deliver a high level of service availability to our customers, ING maintains two data centres and can switch operations between the two in case of any issue.

How we measure: Our ambition is 99.99% availability of all data services to customers.

How we did in 2017: We have achieved 99.96% average availability in 2017.

Data security

At ING, digital banking security and the continuity of our online services are top priorities. Our specialists continually optimise our systems and processes to ensure their security. Despite this effort, vulnerabilities can still be present and we place high importance on how we respond to these. Read more

How we measure: Globally, ING Group has implemented a Responsible Disclosure program with the other major banks through the Dutch Banking Association. ING actively supports this process and reports against the number of reported vulnerabilities that are remediated by the business.

How we did in 2017: 100% of reported vulnerabilities in 2017 were remediated.

Digital innovation

With our Think Forward strategy, ING has been able to successfully respond to changing customer needs. Our focus on innovation and its role in our business was a key driver for improving the customer experience in 2017. ING empowered customers by launching a number of new digital innovations in 2017 including Everyday Round Up, Lionel Chat Bot, and Siri voice activated banking.

2. Help our people be their best

▪ *Talent attraction and retention*

The ability to attract and retain employees is increasingly important, particularly where innovation is critical to the business strategy. To respond to this, in 2017 ING placed greater focus on partnering with industry including events such as Girl Geeks and Remarkable Enabled by Designathon to develop our people and engage with the wider industry.

Innovation and technology was the theme of the 2017 all-staff engagement event, WOW and featured ING robot, Ginger

In 2017, we also formalised our agenda on promoting an inclusive and flexible workplace for all. We help to stimulate diversity in our workplace with colleague-led networks including Gala, a community focused on LGBTI inclusion and our Lioness talent program that supports emerging female leaders to realise their ambitions.

In addition, to ensure the business is attracting the right capabilities to deliver on its long term strategy ING continues to provide opportunities for global mobility, professional development, an active wellbeing program and a global Innovation Bootcamp. ING has also built its position as a thought leader in Digital Innovation.
Read more about our approach to talent attraction and retention.

How we measure: We measure our staff engagement and organisational health alternating between each bi-annually. In 2017 we measured our organisational health using the Organisational Heath Index.

How we did in 2017: We achieved a Health score of 76 placing us in the top 25% of the global benchmark.

3. Help to build a strong community

▪ *Financial inclusion, capacity building and social impact*

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

In 2017, ING Australia's community investment strategy built on this strong base with two strategic community programs focused on financial empowerment:

1. ING continued its long-running partnership with Cerebral Palsy Alliance to support financial inclusion of young people with a disability.
2. Dreamstarter by ING helps to launch, grow and scale start-up social enterprises that have the potential to create sustainable impact in our community by providing both financial and capacity building support.

Read more about our community investment strategy.

Nine Dreamstarters including Clean Coast Collective were featured in the 2017 Gifts that Give consumer campaign

▪ *Environmental footprint*

At ING, we understand that our activities impact the environment we operate in – both directly, through the operations of our buildings, IT systems and business travel, but also indirectly, through our financing portfolio and through our procurement supply chains. ING is aligned to ING Group on our environmental approach.

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

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

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

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

Direct impacts: ING actively tracks and reports our direct impact on the environment through our water and energy consumption, the waste we produce and other activities such as air travel and paper use. Our move to our new office in Sydney has resulted in reduced energy usage of 391,455.92 KWh in 2017.

Directors' report

The Directors submit their report, together with the financial report of ING Bank (Australia) Limited ("the Bank") and its controlled entities ("the Group") for the year ended 31 December 2017.

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

Directors' qualifications and special responsibilities

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

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

John Masters, B.Comm (Hons), CA, Barrister-at-Law
Mr Masters was appointed Director in January 2010. Mr Masters is Chair of the Audit Committee and is a member of the Risk Committee. Mr Masters was appointed to the Remuneration & Nomination Committee in November 2017 with effect from February 2018.

Ann Sherry AO, B.A.
Ms Sherry AO was appointed Director in August 2011 and resigned on 30 October 2017. Ms Sherry AO chaired the Risk Committee and was a member of the Audit and Remuneration & Nomination Committees.

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

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

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

Company secretaries

Rodney Saville, LL.B (Hons), B.A, Solicitor
Mr Saville was appointed Company Secretary of the Group in February 2015 and resigned on 2 March 2018. Mr Saville was also the Head of Legal for the Group.

Peter Dowdall, LL.B (Hons), B.Com, L.M, Solicitor
Mr Dowdall was appointed Company Secretary of the Group in October 2014 and resigned on 13 November 2017.

Clemens Röling, LL.M., LL.B.
Mr Röling was appointed Company Secretary of the Group on 28 February 2018.

Meetings of Directors

Director (eligible to attend)	Number held	Number attended
M Katz	5	5
A Lacaze	5	5
J Masters	5	5
A Sherry AO	5	4
M Newman	5	5
A Bogdaneris	5	3
U Sareen	5	5

Committee Meetings

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

* R&N Committee - Remuneration & Nomination Committee

Corporate structure

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

Nature of operations and principal activities

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

Employees

The Group employed 1,178 permanent employees as at 31 December 2017 (2016: 1,130 permanent employees).

Significant changes in the state of affairs

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

Significant events after the balance date

No subsequent events have occurred since the year ended 31 December 2017, or are pending, that would have a material effect on the financial statements.

Likely developments and expected results

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

Royal Commission

We welcome the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and are committed to cooperating and supporting the inquiry.

Rounding

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

Indemnification and insurance of directors and officers

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

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

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the Directors.

Michael Katz
Chairman

Uday Sareen
Chief Executive Officer

Sydney
23 March 2018

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

To the Directors of ING Bank (Australia) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2017 there have been:

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

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

KPMG

KPMG

Martin McGrath
Partner

Sydney
23 March 2018

Corporate governance statement

Board responsibilities

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

Composition of the Board

At 31 December 2017 the Board comprised five Non-Executive Directors (two of whom are representatives of ING Groep N.V.) and one Executive Director. The Chairman is a Non-Executive Director. The Board met 5 times this year.

Board responsibilities

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

To maintain Director independence and objectivity, a majority of Directors are not Executives of the Group. Non-executive 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, together with the Board, provide 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 which are designed to meet shareholders' needs, regulatory requirements and manage business risks. The strategic plan is a dynamic document and the Board is actively involved in reviewing and approving initiatives and strategies designed to foster the growth and success of the Group;

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

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

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

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

To ensure that all relevant issues are addressed between meetings of the Board and its Committees, there are also various Committees at a business unit level. These Committees are the Executive Committee, Pricing Committee, Credit Risk Committee, Asset & Liability Committee, Non-Financial Risk 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 by providing an objective non-executive review of the effectiveness of the Group's financial reporting and risk management framework. 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 (i.e. Corporate Audit Services) and reviewing the adequacy of the scope of the external audit.

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

Risk Committee

The Risk Committee, chaired by Ms Lacaze, assists the Board by providing an objective non-executive oversight of the implementation and operation of the Group's risk management framework. The Risk Committee ensures a holistic approach to risk management within the Group. It ensures the Group maintains a risk management strategy and framework that is consistent with the approved risk appetite and complexity of the Bank's business model. The Risk Committee formulates the Bank's risk appetite for Board consideration and also makes recommendations on key policies relating to capital, liquidity and funding, ensures effective and informed risk management reporting to the Board as necessary, and being available to meet with regulators (such as the Australian Securities and Investment Commission ("ASIC") and Australian Prudential Regulation Authority ("APRA")) on behalf of the Group, when requested.

Remuneration & Nomination Committee

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

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

Pillar 3 Disclosures

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

Financial statements
Statements of comprehensive income

for the year ended 31 December 2017

		Consolidated		Bank	
amounts in millions of dollars	Note	**2017**	2016	**2017**	2016
Interest income		2,076	2,021	2,221	2,179
Interest expense		(1,263)	(1,318)	(1,441)	(1,509)
Net interest income		813	703	780	670
Net non-interest income / (expense)		46	(10)	76	23
Total operating income	3	**859**	**693**	**856**	**693**
Employment expenses		(174)	(141)	(174)	(141)
Advertising expenses		(58)	(39)	(58)	(39)
Depreciation and amortisation expenses		(36)	(23)	(36)	(23)
Occupancy expenses		(16)	(16)	(16)	(16)
Technology expenses		(16)	(12)	(16)	(12)
Management expenses		(17)	(12)	(17)	(12)
Fee expenses		(9)	(7)	(6)	(5)
Other expenses		(22)	(23)	(22)	(23)
Total operating expenses		**(348)**	**(273)**	**(345)**	**(271)**
Loan impairment benefit / (expense)	9	(11)	(7)	(11)	(7)
Operating profit before tax		**500**	**413**	**500**	**415**
Income tax expense	4	(152)	(118)	(152)	(119)
Profit for the year		**348**	**295**	**348**	**296**
Other comprehensive income					
Items that may be reclassified subsequently to the income statement					
Unrealised revaluations net of tax:					
Available for sale financial assets					
Gains / (losses) arising during the year	14	-	(1)	-	(1)
(Gains) / losses transferred to the income statement	14	(1)	8	(1)	8
Net gains / (losses) on available for sale financial assets		(1)	7	(1)	7
Cash flow hedges					
Gains / (losses) arising during the year	14	39	71	39	71
(Gains) / losses transferred to the income statement		(23)	(38)	(23)	(38)
Net gains / (losses) on cash flow hedges	8	16	33	16	33
Total amount recognised directly in equity		**15**	**40**	**15**	**40**
Total comprehensive income		**363**	**335**	**363**	**336**

Financial statements
Balance sheets

as at 31 December 2017

amounts in millions of dollars	Note	Consolidated 2017	Consolidated 2016	Bank 2017	Bank 2016
Assets					
Cash and cash equivalents	5	980	840	800	669
Due from other financial institutions	6	311	223	373	280
Available for sale financial assets	7	3,961	4,166	3,961	4,166
Derivative assets	8	28	51	20	28
Receivables and other assets		128	170	94	150
Loans and advances	9	52,559	47,823	52,559	47,823
Amounts due from controlled entities		-	-	6,796	6,733
Deferred tax asset	4	41	40	33	32
Property, plant and equipment		109	127	109	127
Intangible assets		27	8	27	8
Total assets		**58,144**	**53,448**	**64,772**	**60,017**
Liabilities					
Derivative liabilities	8	340	293	340	291
Creditors and other liabilities		414	352	409	347
Deposits and other borrowings	10	49,823	45,694	49,966	45,814
Amounts due to controlled entities		-	-	9,794	9,647
Debt issues	12	3,301	3,187	-	-
Current tax liabilities		85	1	85	1
Provisions	11	17	121	17	121
Deferred tax liabilities	4	61	63	55	56
Total liabilities		**54,041**	**49,711**	**60,666**	**56,277**
Net assets		**4,103**	**3,737**	**4,106**	**3,740**
Equity					
Contributed equity	13	1,334	1,334	1,334	1,334
Reserves	14	123	107	123	107
Retained earnings		2,646	2,296	2,649	2,299
Total equity		**4,103**	**3,737**	**4,106**	**3,740**

Financial statements
Statements of changes in equity
for the year ended 31 December 2017

amounts in millions of dollars	Note	Contributed equity 13	Reserves 14	Retained earnings	Total equity
Consolidated					
As at 1 January 2017		1,334	107	2,296	3,737
Profit for the year		-	-	348	348
Other comprehensive income		-	15	-	15
Total comprehensive income		**-**	**15**	**348**	**363**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	-	-
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	3	-	3
As at 31 December 2017		**1,334**	**123**	**2,646**	**4,103**
As at 1 January 2016		1,334	67	2,099	3,500
Profit for the year		-	-	295	295
Other comprehensive income		-	40	-	40
Total comprehensive income		**-**	**40**	**295**	**335**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	(100)	(100)
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	2	-	2
As at 31 December 2016		**1,334**	**107**	**2,296**	**3,737**
Bank					
As at 1 January 2017		1,334	107	2,299	3,740
Profit for the year		-	-	348	348
Other comprehensive income		-	15	-	15
Total comprehensive income		**-**	**15**	**348**	**363**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	-	-
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	3	-	3
As at 31 December 2017		**1,334**	**123**	**2,649**	**4,106**
			-		
As at 1 January 2016		1,334	67	2,101	3,502
Profit for the year		-	-	296	296
Other comprehensive income		-	40	-	40
Total comprehensive income		**-**	**40**	**296**	**336**
Transactions with owners, recorded directly in equity					
Dividend provided for or paid	16	-	-	(100)	(100)
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	2	-	2
As at 31 December 2016		**1,334**	**107**	**2,299**	**3,740**

Financial statements
Cash flow statements

for the year ended 31 December 2017

amounts in millions of dollars	Note	Consolidated 2017	Consolidated 2016	Bank 2017	Bank 2016
Cash flows from operating activities					
Operating profit before tax		500	413	500	415
Adjustments for:					
Depreciation and amortisation expenses		36	23	36	23
Loan impairment expense / (benefit)		11	7	11	7
Other		20	64	22	68
Taxes paid		(77)	(105)	(77)	(105)
Changes in:					
Loans and advances		(4,747)	(4,236)	(4,747)	(4,236)
Derivatives		70	(63)	57	(76)
Receivables and other assets		42	(15)	56	(1)
Creditors and other liabilities		62	37	62	38
Deposits and other borrowings		3,411	3,586	3,518	3,476
Net cash flows used in operating activities		**(672)**	**(289)**	**(562)**	**(391)**
Cash flows from investing activities					
Payments for other available for sale financial assets		(1,678)	(2,133)	(1,678)	(2,133)
Payments for property, plant and equipment		(37)	(66)	(37)	(66)
Proceeds from sale of other available for sale financial assets		919	2,011	919	2,011
Proceeds from redemption of other available for sale financial assets		462	1,457	462	1,457
(Net payments) / proceeds from discount securities		502	(648)	502	(648)
Net cash flows from investing activities		**168**	**621**	**168**	**621**
Cash flows from financing activities					
Proceeds from other long term financing		16,755	13,067	16,755	13,067
Proceeds from debt issued		1,076	970	-	-
Repayment of other long term financing		(16,037)	(12,972)	(16,037)	(12,972)
Repayment of debt issued		(962)	(1,094)	-	-
Dividends paid		(100)	(300)	(100)	(300)
Net cash flows used in financing activities		**732**	**(329)**	**618**	**(205)**
Net cash flows		228	3	224	25
Cash and cash equivalents at beginning of year[1]		1,063	1,060	949	924
Cash and cash equivalents at end of year[1]	5 & 6	**1,291**	**1,063**	**1,173**	**949**

Interest received was $2,079 million (2016: $2,002 million) and interest paid was $1,277 million (2016: $1,309 million)

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

Notes to the financial statements

1. Basis of preparation

1.1 Corporate information

ING Bank (Australia) Limited (the "Bank") and its controlled entities ("the Group") is a company incorporated and domiciled in Australia. The registered office and principal place of business of the Group is Level 28, 60 Margaret Street, Sydney NSW 2000. The ultimate parent entity of the Group is ING Groep N.V.

The financial statements for the year ended 31 December 2017 is comprised of the Bank and its controlled entities comprising IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1, IDOL Trust Series 2012-2, IDOL Trust Series 2013-1, IDOL Trust Series 2013-2, IDOL Trust Series 2014-1, IDOL Trust Series 2015-1, IDOL Trust Series 2016-1 and IDOL Trust Series 2017-1. The financial statements were authorised for issue in accordance with a resolution of the Directors on 23 March 2018.

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

1.2 Basis of accounting

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

The financial statements are presented in Australian Dollars which is also the functional currency. In compliance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, all values are rounded to the nearest one million dollars, unless otherwise stated.

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

2. Significant estimates and judgements

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

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

Area	Significant estimates and judgements
Impairment of loans and advances	*Specific Provisions* are raised where there is objective evidence of impairment (where the Group does not expect to receive all of the cash flows contractually due). The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows discounted at the financial asset's original effective interest rate. *Collective Provisions* are provisions in respect of loans and advances that are not individually assessed for impairment and are therefore assessed collectively for impairment. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date. Considerable judgement is exercised in identifying and determining the extent of the loan loss provision (impairment) and is based on management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry and geographical concentration trends as well as the financial conditions of the counterparty and expected cash flows.
Impairment of available for sale financial assets	In assessing impairment, the Group uses its judgement to select a variety of calculation methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.
Financial instruments fair value	The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques are subjective in nature and involve various assumptions regarding pricing factors.

3. Operating income

amounts in millions of dollars	Consolidated 2017	Consolidated 2016	Bank 2017	Bank 2016
Interest income				
Cash and cash equivalents	11	12	9	11
Due from other financial institutions	5	7	5	7
Available for sale financial assets	113	133	113	133
Loans and advances	1,932	1,848	1,932	1,848
Amounts due from controlled entities	-	-	148	163
Derivative assets	15	21	14	17
Total interest income	**2,076**	**2,021**	**2,221**	**2,179**
Interest expense				
Deposits	1,062	1,093	1,065	1,098
Debt issues	92	107	-	-
Derivative liabilities	109	118	101	109
Amounts due to controlled entities	-	-	275	302
Total interest expense	**1,263**	**1,318**	**1,441**	**1,509**
Net interest income	**813**	**703**	**780**	**670**
Non-interest income / (expense)				
Account fees	47	40	47	40
Net commission income/(expense)	4	(4)	5	(4)
Customer transaction costs	(15)	(50)	(15)	(50)
Gain from sale of available for sale financial assets	1	2	1	2
Securitisation income	-	-	31	30
Other non-interest income/(expense)	9	2	7	5
Net non-interest income/(expense)	**46**	**(10)**	**76**	**23**
Total operating income	**859**	**693**	**856**	**693**

Income and expense recognition – Accounting policy

Interest income and expenses are recognised using a calculated effective interest rate method which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Contractual interest on instruments not held at amortised cost, including AFS and derivatives are included in interest income and expense.

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

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

4. Income tax expense

amounts in millions of dollars	Consolidated 2017	Consolidated 2016	Bank 2017	Bank 2016
Income Statement				
Current income tax	161	106	161	100
Deferred income tax	(9)	12	(9)	19
Income tax expense reported in Income Statement	**152**	**118**	**152**	**119**
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	7	14	7	14
Revaluation of available for sale financial assets	-	3	-	3
Income tax expense recognised in other comprehensive income	**7**	**17**	**7**	**17**
Reconciliation of prima facie income tax expense on accounting profit before income tax expense:				
Operating profit before tax	500	413	500	415
Prima facie income tax on operating profit at 30% (2016: 30%)	150	124	150	125
Income Tax (over)/under provided in prior years	-	(4)	-	(4)
Effects of amounts which are not (assessable)/deductible	2	(2)	2	(2)
Income tax expense reported in Income Statement	**152**	**118**	**152**	**119**

Deferred income tax	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
amounts in millions of dollars	2017	2016	2017	2016	2017	2016	2017	2016
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	46	41	6	7	46	41	6	7
Depreciation and amortisation expenses	9	15	(7)	3	9	15	(7)	3
Revaluation of derivatives	6	7	(1)	3	-	-	-	-
Other	-	-	-	(3)	-	-	-	(1)
Total deferred tax liabilities	**61**	**63**			**55**	**56**		
Deferred tax assets								
Provisions for impairment	7	5	(2)	3	7	5	(2)	3
Deferred lending income	1	-	-	-	1	-	-	-
Revaluation of available for sale financial assets	1	1	-	7	1	1	-	7
Revaluation of cash flow hedge	7	14	-	-	7	14	-	-
Accrued expenses	10	4	(6)	1	10	4	(6)	1
Provisions	5	6	1	(1)	5	6	1	(1)
Other	10	10	-	(8)	2	2	(1)	-
Total deferred tax assets before set- off	**41**	**40**			**33**	**32**		
Net deferred tax assets / (liabilities)	**(20)**	**(23)**			**(22)**	**(24)**		
Deferred income tax charge			**(9)**	**12**			**(9)**	**19**

4. Income tax expense (continued)

Income tax – Accounting policy

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

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

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

Effective tax rate for 2017 is 30.4% (2016: 28.6%).

Tax consolidation

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

5. Cash and cash equivalents

	Consolidated		Bank	
amounts in millions of dollars	**2017**	2016	**2017**	2016
Cash and liquid assets	299	309	291	302
Cash equivalents held by other financial institutions	681	531	509	367
Total cash and cash equivalents	**980**	**840**	**800**	**669**

Cash and cash equivalents – Accounting policy

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

6. Due from other financial institutions

	Consolidated		Bank	
amounts in millions of dollars	**2017**	2016	**2017**	2016
Cash collateral	311	223	373	280
Total due from other financial institutions	**311**	**223**	**373**	**280**

Due from other financial institutions – Accounting policy

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

7. Available for sale financial assets

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Discount securities	247	749	247	749
Corporate bonds	489	379	489	379
Covered bonds	141	332	141	332
Government bonds	3,084	2,704	3,084	2,704
Mortgage-backed securities	-	2	-	2
Total available for sale financial assets	**3,961**	**4,166**	**3,961**	**4,166**
Maturity analysis of available for sale financial assets				
Not longer than 3 months	247	1,108	247	1,108
Longer than 3 months and not longer than 1 year	63	323	63	323
Longer than 1 year and not longer than 5 years	1,461	1,410	1,461	1,410
Longer than 5 years	2,190	1,325	2,190	1,325
Total available for sale financial assets	**3,961**	**4,166**	**3,961**	**4,166**

Available for sale financial assets – Accounting policy

Available for sale financial assets are non-derivative financial assets that are not designated as fair value through the profit and loss, held to maturity or loans and advances. Available for sale assets primarily comprise debt securities and are initially recognised at fair value plus transaction costs and are subsequently measured at fair value with gains and losses recognised in the available for sale reserve within equity until disposal or impairment where the gains or losses are transferred to the Income Statement. All purchases and sales of financial assets classified as available for sale that require delivery within the time frame established by the regulation or market convention are recognised at trade date.

8. Derivatives

Consolidated	2017			2016		
amounts in millions of dollars	Notional	Fair value asset	Fair value liability	Notional	Fair value asset	Fair value liability
Derivatives designated as fair value hedges						
Interest rate swaps	2,883	2	(299)	2,407	1	(219)
Total fair value hedges	**2,883**	**2**	**(299)**	**2,407**	**1**	**(219)**
Derivatives designated as cash flow hedges						
Interest rate swaps	20,065	17	(41)	22,697	25	(72)
Total cash flow hedges	**20,065**	**17**	**(41)**	**22,697**	**25**	**(72)**
Other derivatives						
Cross currency swap	25	9	-	48	21	-
Basis swaps	1,012	-	-	1,348	-	-
Interest rate swaps	414	-	-	715	4	(2)
Total other derivatives	**1,451**	**9**	**-**	**2,111**	**25**	**(2)**
Total recognised derivative assets / (liabilities)	**24,399**	**28**	**(340)**	**27,215**	**51**	**(293)**

8. Derivatives (continued)

Bank	2017			2016		
amounts in millions of dollars	Notional	Fair value asset	Fair value liability	Notional	Fair value asset	Fair value liability
Derivatives designated as fair value hedges						
Interest rate swaps	2,883	2	(299)	2,407	1	(219)
Total fair value hedges	**2,883**	**2**	**(299)**	**2,407**	**1**	**(219)**
Derivatives designated as cash flow hedges						
Interest rate swaps	20,065	17	(41)	22,697	25	(72)
Total cash flow hedges	**20,065**	**17**	**(41)**	**22,697**	**25**	**(72)**
Other derivatives						
Basis swaps	506	-	-	674	-	-
Interest rate swaps	207	1	-	307	2	-
Total other derivatives	**713**	**1**	**-**	**981**	**2**	**-**
Total recognised derivative assets / (liabilities)	**23,661**	**20**	**(340)**	**26,085**	**28**	**(291)**

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Maturity analysis for derivative assets				
Not longer than 3 months	-	-	-	-
Longer than 3 months and not longer than 1 year	-	3	-	1
Longer than 1 year and not longer than 5 years	22	44	14	23
Longer than 5 years	6	4	6	4
Total derivative assets	**28**	**51**	**20**	**28**

Derivatives – Accounting policy

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

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

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

Other derivatives are cross currency, interest rate and basis swaps that the Group entered into economically to hedge Residential Mortgage-Backed Securities ('RMBS') issued and are not designated for hedge accounting purposes. Changes in fair value are recorded in the Income Statement.

Hedging – Accounting policy

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

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

8. Derivatives (continued)

Derivatives designated and accounted for as hedging instruments

Cash flow hedges

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

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

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

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

Cashflow hedges	Consolidated		Bank	
amounts in millions of dollars	**2017**	2016	**2017**	2016
Fair value of hedge instruments	(24)	(47)	(24)	(47)
Amount recognised in other comprehensive income during the period (net of tax)	16	33	16	33

Fair value hedges

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

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

Fair value hedges	Consolidated		Bank	
amounts in millions of dollars	**2017**	2016	**2017**	2016
Fair value of hedge instruments	(297)	(218)	(297)	(218)
Current year gains / (losses) on hedging instruments	11	26	11	26
Fair value of hedged items	3,167	2,620	3,167	2,620
Current year gains / (losses) on hedged items attributable to the hedged risk	(11)	(26)	(11)	(26)
Net hedge ineffectiveness	-	-	-	-

Offsetting

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

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

8. Derivatives (continued)

Consolidated	Effects of offsetting on the balance sheet			Related amounts not offset		
amounts in millions of dollars	Gross amount	Amounts set-off in the balance sheet	**Amount presented in the balance sheet**	Amount subject to master netting arrangements	Financial instrument collateral	**Net Amount**
31 December 2017						
Financial assets						
Derivative financial instruments	28	-	28	(17)	(1)	10
Total	**28**	**-**	**28**	**(17)**	**(1)**	**10**
Financial liabilities						
Derivative financial instruments	(340)	-	(340)	17	271	(52)
Total	**(340)**	**-**	**(340)**	**17**	**271**	**(52)**
31 December 2016						
Financial assets						
Derivative financial instruments	51	-	51	(28)	(8)	15
Total	**51**	**-**	**51**	**(28)**	**(8)**	**15**
Financial liabilities						
Derivative financial instruments	(293)	-	(293)	28	223	(42)
Total	**(293)**	**-**	**(293)**	**28**	**223**	**(42)**

Bank	Effects of offsetting on the balance sheet			Related amounts not offset		
amounts in millions of dollars	Gross amount	Amounts set-off in the balance sheet	**Amount presented in the balance sheet**	Amount subject to master netting arrangements	Financial instrument collateral	**Net Amount**
31 December 2017						
Financial assets						
Derivative financial instruments	20	-	20	(17)	(1)	2
Total	**20**	**-**	**20**	**(17)**	**(1)**	**2**
Financial liabilities						
Derivative financial instruments	(340)	-	(340)	17	271	(52)
Total	**(340)**	**-**	**(340)**	**17**	**271**	**(52)**
31 December 2016						
Financial assets						
Derivative financial instruments	28	-	28	(28)	(8)	(8)
Total	**28**	**-**	**28**	**(28)**	**(8)**	**(8)**
Financial liabilities						
Derivative financial instruments	(291)	-	(291)	28	223	(40)
Total	**(291)**	**-**	**(291)**	**28**	**223**	**(40)**

9. Loans and advances

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Retail Banking loans	44,828	41,406	44,828	41,406
Business Banking loans	4,037	3,440	4,037	3,440
Wholesale Banking loans	3,708	2,993	3,708	2,993
Consumer Lending	11	-	11	-
Gross loans and advances	**52,584**	**47,839**	**52,584**	**47,839**
Specific provision for impairment	(17)	(10)	(17)	(10)
Collective provision for impairment	(8)	(6)	(8)	(6)
Total loans and advances	**52,559**	**47,823**	**52,559**	**47,823**
Maturity analysis of loans and advances				
Not longer than 3 months	267	146	267	146
Longer than 3 months and not longer than 1 year	768	628	768	628
Longer than 1 year and not longer than 5 years	4,558	3,592	4,558	3,592
Longer than 5 years	46,090	42,630	46,090	42,630
No maturity specified	901	843	901	843
Gross loans and advances	**52,584**	**47,839**	**52,584**	**47,839**

Loans and Advances - Accounting policy

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

Provision for impairment	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Specific provisions				
Opening balance	10	20	10	20
Net movement in provision	9	9	9	9
Sub-total	**19**	**29**	**19**	**29**
Bad debts written off	(2)	(19)	(2)	(19)
Closing balance – specific provisions	**17**	**10**	**17**	**10**
Collective provisions				
Opening balance	6	8	6	8
Net movement in provision	2	(2)	2	(2)
Closing balance – collective provisions	**8**	**6**	**8**	**6**
Total provision for impairment	**25**	**16**	**25**	**16**

Loan impairment benefit/(expense)	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Income Statement				
Specific provision	(9)	(5)	(9)	(5)
Collective provision	(2)	(2)	(2)	(2)
Total loans loss benefit/(expense)	**(11)**	**(7)**	**(11)**	**(7)**

9. Loans and advances (continued)

For the year ended 31 December 2017 the Group recognised $11 million in loan loss provisions expense (2016: $7 million in loan loss provisions expense).

The loan loss provisions for the year is primarily attributable to a $14 million expense in the specific provision on the Retail portfolio, $6m on the collective Retail portfolio, and $1m on collective Business portfolio. In addition, there was a release of $5 million in collective provisions and $5m in specific provisions across the portfolios, and write-off of $2m.

Impairment - Accounting policy

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

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

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

10. Deposits and other borrowings

	Consolidated		Bank	
amounts in millions of dollars	**2017**	2016	**2017**	2016
Deposits				
Deposits at call	27,079	23,293	27,222	23,413
Term deposits[1]	21,909	21,732	21,909	21,732
Certificates of deposits	480	273	480	273
Securities sold under agreement to repurchase	355	396	355	396
Deposits and other borrowings	**49,823**	**45,694**	**49,966**	**45,814**
Concentration of deposits				
Retail deposits	30,328	26,851	30,328	26,851
Business deposits	9,436	9,867	9,436	9,867
Wholesale deposits	10,059	8,976	10,202	9,096
Total deposits	**49,823**	**45,694**	**49,966**	**45,814**

[1] Term deposits include funding from ING Bank N.V. (Sydney Branch) of $8,623 million (2016: $7,900 million).

Deposits and other borrowings – Accounting policy

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

11. Provisions

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Annual leave	7	7	7	7
Long service leave	7	8	7	8
Other provisions	3	6	3	6
Provision for dividend	-	100	-	100
Total provisions	**17**	**121**	**17**	**121**
Provisions expected to be paid in the next 12 months	**12**	**109**	**12**	**109**

Movement in provisions	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Carrying amount at beginning of the year	121	318	121	318
Additional provision recognised	9	112	9	112
Amounts utilised during the year	(113)	(309)	(113)	(309)
Carrying amount at end of year	**17**	**121**	**17**	**121**

Provisions – Accounting policy

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

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

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

12. Debt issues

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Mortgage-backed securities	3,301	3,187	-	-
Total debt issues	**3,301**	**3,187**	**-**	**-**

Debt issues – Accounting policy

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

13. Contributed equity

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Issued and fully paid equity				
Ordinary voting shares	1,284	1,284	1,284	1,284
Ordinary non-voting shares	50	50	50	50
Total contributed equity	**1,334**	**1,334**	**1,334**	**1,334**

	Consolidated		Bank	
	2017	2016	2017	2016
Issued capital	**# of Shares**	**# of Shares**	**# of Shares**	**# of Shares**
Balance at beginning of financial year	1,334,000,004	1,334,000,004	1,334,000,004	1,334,000,004
Issue of shares	-	-	-	-
Balance at end of financial year	**1,334,000,004**	**1,334,000,004**	**1,334,000,004**	**1,334,000,004**

Contributed equity – Accounting policy

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

14. Reserves

2017 Consolidated and Bank					
amounts in millions of dollars	General reserve for credit losses	Share based payments reserve	Cash flow hedge reserve	Available for sale reserve	Total
Opening balance	129	13	(33)	(2)	107
Revaluation movement for the year, net of tax	-	3	39	-	42
Transferred to Other Comprehensive Income Statement - net interest income	-	-	(33)	-	(33)
Transfer of gains on sale to Other Comprehensive Income - net non-interest income	-	-	-	(1)	(1)
Tax on amounts transferred to Other Comprehensive Income Statement	-	-	10	-	10
Transfer (to)/from retained earnings	(2)	-	-	-	(2)
Closing balance	**127**	**16**	**(17)**	**(3)**	**123**

2016 Consolidated and Bank					
amounts in millions of dollars	General reserve for credit losses	Share based payments reserve	Cash flow hedge reserve	Available for sale reserve	Total
Opening balance	131	11	(66)	(9)	67
Revaluation movement for the year, net of tax	-	2	71	(1)	72
Transferred to Other Comprehensive Income Statement - net interest income	-	-	(54)	-	(54)
Transfer of gains on sale to Other Comprehensive Income - net non-interest income	-	-	-	11	11
Tax on amounts transferred to Other Comprehensive Income Statement	-	-	16	(3)	13
Transfer (to)/from retained earnings	(2)	-	-	-	(2)
Closing balance	**129**	**13**	**(33)**	**(2)**	**107**

14. Reserves (continued)

Reserves – Accounting policy

General reserve for credit losses

The general reserve for credit losses ("GRCL") is an APRA requirement which appropriates amounts from retained earnings and represents an allocation of capital to cover potential credit losses which are not yet identified. The methodology for calculating the GRCL is based on converting the 12 month probability of default to a lifetime probability of default. This is determined through the implementation of whole of life parameters in the retail, business and wholesale loans probability of default models.

Share based payments reserve

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

Cash flow hedge reserve

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

Available for sale reserve

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

15. Risk management

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

Risk	Exposure arising from	Measurement	Governance
Credit Risk	• Cash and cash equivalents • Loans and advances • Derivative financial instruments • Available for sale financial assets • Undrawn loan commitments • Bank accepted guarantees	• Aging analysis • Credit ratings • Arrears analysis • Internal ratings models • Stress testing • Financial analysis • Convenant measures • Loan to Value • Loan to Income servicibility	• Retail Credit Policy • Wholesale Banking and Bank Treasury Credit Policy • Commercial Real Estate Credit Policy • Large Exposures Policy • Enterprise Wide Stress Testing Framework Sub-Policy • Risk Appetite Statement • Risk Management Strategy
Market Risk – Interest Rate Risk	• Loans and advances • Deposits • Available for sale financial assets • Debt issues	• Economic Value Sensitivity ("EVS") • Earnings at Risk ("EaR") • Interest Rate Risk in the Banking Book ("IRRBB") • Scenario analysis • Basis Point Valuation	• Asset & Liability Management Sub-Policy • Enterprise Wide Stress Testing • Risk Appetite Statement • Risk Management Strategy
Market Risk – Foreign Exchange Risk	• Financial assets and liabilities not denominated in Australian dollars	• Sensitivity analysis • Repricing analysis	• Asset & Liability Management Sub-Policy • Risk management Strategy
Liquidity and funding risk	• Deposits and other borrowings • Debt issues • Undrawn loan committments	• Scenario analysis and stress testing • Liquidity Coverage Ratio ("LCR") • Net Stable Funding Ratio ("NSFR") • Additional liquidity triggers and risk limits • Behavioural models	• Asset & Liability Management Sub-Policy • Risk Appetite Statement • Treasury – Securitisation Sub-Policy • Risk management Strategy
Non-Financial Risk (i.e. operational, compliance and legal risk)	• Inadequate or failed internal processes, people and systems • Failure or perceived failure to comply with relevant laws, regulations, the Group's policies	• Risk and Control self Assessment • Non-Financial Risk Score • Incident reporting • Scenario analysis • Business Environment Analysis	• Operational Risk Management Framework Sub-Policy • Financial Crimes Sub-Policy • Compliance Framework and Chart Sub-Policy • Conflicts of Interest Sub-Policy • Anti-Bribery and Corruption Sub-Policy • AML/CTF Compliance Progam Sub-Policy • Risk Appetite Statement • Risk Management Strategy

15. Risk management (continued)

Risk management framework

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

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

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

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

Risk governance framework

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

Risk management strategy

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

- *Risk Committee* – the Board Risk Committee provides objective non-executive oversight of the implementation and operation of the Group's risk management framework. A key purpose of the Risk Committee is to help formulate the Group's risk strategy and appetite for consideration and approval by the Board.

- *Audit Committee* – the Board Audit Committee assists the Board by providing an objective non-executive review of the effectiveness of the Group's financial reporting and risk management framework. This includes internal controls to deal with both the design and effectiveness and efficiency of significant business processes, which involve safeguarding of assets, the maintenance of proper accounting records.

- *Remuneration and Nomination Committee* – the Remuneration and Nomination Committee is responsible for reviewing and making recommendations to the Board on the Group's Remuneration Policy and making recommendations in relation to remuneration of the CEO, direct reports of the CEO, other persons whose activities may affect the financial soundness of the Group and those persons covered by the Remuneration Policy.

Risk management organisation

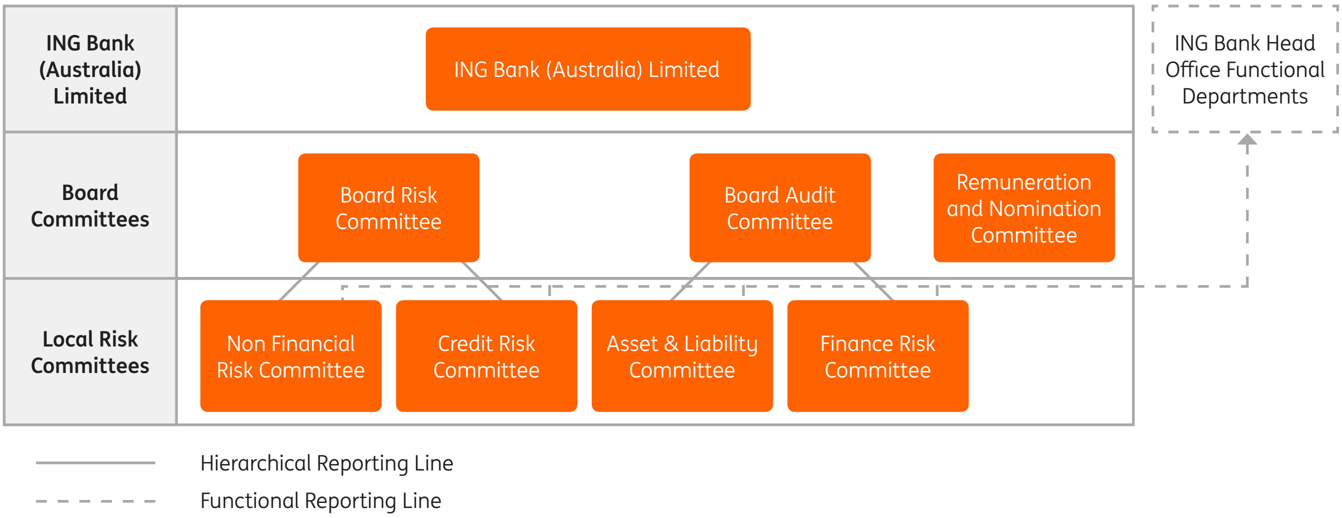
The Group regards risk as a fundamental activity, performed at all levels of the organisation. Accountability for the risk management framework is based on the "three lines of defence" model, whereby ownership for risk is taken at three levels in the organisation. The governance framework reflects our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

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

15. Risk management (continued)

Risk management function

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



Local risk committees

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

- 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 on a monthly basis;

- Credit Risk Committee ("CRC") – 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 CRC reviews and monitors the on-going level of credit risk capital and the specific and collective loan loss provisioning for the Group. The CRC meets on a monthly basis;

- Asset and Liability 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 ALCO meets 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. The FRC meets on a quarterly basis.

15. Risk management (continued)

(a) Credit risk

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

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

The Group's credit exposure mainly relates to:

- Retail Banking loans to individuals which are predominantly mortgage loans secured by residential property. The Group has a small portfolio of unsecured loans via the recently launched credit card product.
- Business Banking loans consists of Commerical Property Finance (CPF) and Priority Commercial Mortgages (PCM) secured by residential and commercial properties.
- Wholesale Banking loans comprises Real Estate Finance (REF), Utilities Infrastructure & Project Finance (UIP) and Corporate Lending, which generally comprise secured exposures or where unsecured, have benefit of corporate guarantees and negative pledges.
- Wholesale investments and securities which are mainly unsecured, with some secured lending in the form of securitised assets. Securitised assets such as residential mortgage backed securities are secured by the pro-rata portion of the underlying pool of assets held by the issuer of the securitised bond.

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

Maximum credit risk exposure

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

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

15. Risk management (continued)

The maximum exposure to credit risk is detailed below:

Consolidated 2017

amounts in millions of dollars	Note	Maximum exposure to credit risk	FV of collateral and credit enhancements held: Cash	Letters of credit/ guarantees	Property	Total	Surplus collateral[1]	Net collateral[2]	Net exposure[3]
Financial assets									
Cash and cash equivalents	5	980	-	-	-	-	-	-	980
Due from other financial institutions	6	311	-	-	-	-	-	-	311
Receivables and other assets		108	-	-	-	-	-	-	108
Available for sale financial assets	7	3,961	-	-	-	-	-	-	3,961
Loans and advances	9	52,584	-	522	90,231	90,753	(38,169)	50,368	2,216
Derivative assets	8	28	1	-	-	1	(1)	17	11
Total		**57,972**	**1**	**522**	**90,231**	**90,754**	**(38,170)**	**50,385**	**7,587**
Off-Balance Sheet									
Undrawn loan commitments	19	7,267	-	-	-	-	-	-	7,267
Bank accepted guarantees	19	138	-	-	-	-	-	-	138
Total maximum credit risk exposure		**65,377**	**1**	**522**	**90,231**	**90,754**	**(38,170)**	**50,385**	**14,992**

Consolidated 2016

amounts in millions of dollars	Note	Maximum exposure to credit risk	FV of collateral and credit enhancements held: Cash	Letters of credit/ guarantees	Property	Total	Surplus collateral[1]	Net collateral[2]	Net exposure[3]
Financial assets									
Cash and cash equivalents	5	840	-	-	-	-	-	-	840
Due from other financial institutions	6	223	-	-	-	-	-	-	223
Receivables and other assets		110	-	-	-	-	-	-	110
Available for sale financial assets	7	4,166	-	-	-	-	-	-	4,166
Loans and advances	9	47,839	-	367	81,674	82,041	(34,202)	46,906	933
Derivative assets	8	51	8	-	-	8	(8)	28	23
Total		**53,229**	**8**	**367**	**81,674**	**82,049**	**(34,210)**	**46,934**	**6,295**
Off-Balance Sheet									
Undrawn loan commitments	19	7,199	-	-	-	-	-	-	7,199
Bank accepted guarantees	19	79	-	-	-	-	-	-	79
Total maximum credit risk exposure		**60,507**	**8**	**367**	**81,674**	**82,049**	**(34,210)**	**46,934**	**13,573**

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

15. Risk management (continued)

Collateral – Lending activities

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

Collateral	Consolidated	
amounts in millions of dollars	2017	2016
Held against past due but not impaired assets	948	868
Held against impaired assets	163	149

Exposure not mitigated by collateral as a percentage of total financial assets	Consolidated	
in percentages	2017	2016
Retail Banking loans	0.0%	0.0%
Business Banking loans	0.0%	0.0%
Wholesale Banking loans	3.8%	1.7%
Consumer Lending	0.0%	0.0%
Financial assets other than loans and advances	9.3%	10.1%
Total	**13.1%**	**11.8%**

Collateral – Derivative contracts

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

Distribution of financial assets by credit quality

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

	Consolidated		Bank	
amounts in millions of dollars	2017	2016	2017	2016
Neither past due nor impaired	57,240	52,476	63,887	59,077
- of which: Retail Banking loans	44,146	40,690	44,146	40,690
- of which: Business Banking loans	4,116	3,428	4,116	3,428
- of which: Wholesale Banking loans	3,474	2,833	3,474	2,833
- of which: Consumer Lending	11	-	11	-
- Related entities	105	135	105	135
- Financial assets other than loans and advances	5,388	5,390	12,035	11,991
Past due but not impaired gross loans and advances	615	636	615	636
Impaired loans and advances	117	117	117	117
Total	**57,972**	**53,229**	**64,619**	**59,830**

15. Risk management (continued)

Risk classes of financial assets

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

S&P Equivalent Rating		Consolidated		Bank	
amounts in millions of dollars	Risk Grading	2017	2016	2017	2016
AAA	1	2,069	2,176	7,491	7,566
AA	2-4	12,007	11,140	12,100	11,231
A	5-7	4,154	4,728	4,024	4,601
BBB	8-10	21,264	21,060	21,269	21,061
BB	11-13	16,841	12,335	16,841	12,335
B	14-16	912	1,282	912	1,282
CCC & Problem Grade	17-20	725	508	725	508
Not rated		-	-	1,257	1,246
Total		**57,972**	**53,229**	**64,619**	**59,830**

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

Impaired loans – Accounting Policy

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

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

Ageing analysis (past due but not impaired)

Consolidated and Bank	2017		2016	
amounts in millions of dollars and percentages	millions	%	millions	%
Less than 1 payment past due	410	66.7%	444	69.8%
1 payment past due	159	25.8%	145	22.8%
2 payments past due	46	7.5%	47	7.4%
Total	**615**	**100.0%**	**636**	**100.0%**

15. Risk management (continued)

Impaired loans by economic sector

Consolidated and Bank	2017		2016	
amounts in millions of dollars and in percentages	millions	%	millions	%
Private individuals	87	74.4%	78	66.7%
Construction & commercial real estate	1	0.8%	1	0.8%
Corporate	29	24.8%	38	32.5%
Total	**117**	**100.0%**	**117**	**100.0%**

Risk concentration: Group portfolio (by economic sector)

	Consolidated				Bank			
amounts in millions of dollars and in percentages	2017	%	2016	%	2017	%	2016	%
Construction & commercial real estate	5,202	9.0%	3,977	7.5%	5,202	8.0%	3,977	6.6%
Corporate	2,437	4.2%	2,338	4.4%	2,437	3.8%	2,338	3.9%
Financial institutions	2,059	3.6%	2,152	4.0%	8,706	13.5%	8,753	14.6%
Private individuals	44,840	77.3%	41,401	77.8%	44,840	69.4%	41,401	69.3%
Public administration	3,434	5.9%	3,361	6.3%	3,434	5.3%	3,361	5.6%
Total	**57,972**	**100.0%**	**53,229**	**100.0%**	**64,619**	**100.0%**	**59,830**	**100.0%**

(b) Market risk

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

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

Interest rate risk in the banking book

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

- **Repricing risk** - the risk of loss in earnings or economic value caused by a change in the overall level of interest rates. This risk arises from mismatches in the repricing dates of an ADI's banking book items. The repricing date of an ADI's asset, liability or other banking book item is the date on which the principal of that item is repaid (in whole or part) to, or by the ADI or on which the interest rate on that principal is reset, if earlier.

- **Yield curve risk** - the risk of loss in earnings or economic value caused by a change in the relative levels of interest rates for different tenors (that is, a change in the slope or shape of the yield curve). Yield curve risk arises from repricing mismatches between assets and liabilities. For most purposes, repricing risk and yield curve risk are grouped together.

- **Basis risk** - is the risk of loss in earnings or economic value of the banking book arising from imperfect correlation in the adjustment of the interest rates earned and paid on different instruments with otherwise similar repricing characteristics.

- **Optionality risk** - the risk of loss in earnings or economic value due to the existence of stand-alone or embedded options to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks. An option provides the holder the right but not the obligation to buy, sell or in some manner alter the cash flow of an instrument or financial contract. In the case of options embedded in customer products, losses from optionality risk will arise from customers exercising choices that cause the actual repricing dates to deviate from those specified by the repricing assumptions.

15. Risk management (continued)

Managing and monitoring interest rate risk

The Group performs stress testing with the existence of triggers to ensure limits are not breached. Risk mitigation is also further explained in Note 8 in relation to hedging using derivatives to mitigate exposure to interest, market and foreign exchange risk.

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

- EVS is a measure of the increase or decrease in the net economic value of the Group resulting from a change in market interest rates. The process of calculating EVS involves adjusting the current value of all assets and liabilities to the values that would apply in assumed different interest rate environments.

- EaR estimates the amount of change in future earnings of the Group that may result from a change in market interest rates. An objective of this measure is to ensure that the amount of potential diminution of future earnings resulting from changes in market rates is within the risk appetite determined by the Board. The EaR perspective considers how changes in interest rates will affect the Group's reported earnings due to the current and forecast mismatch interest rate positions. The Group undertakes a number of scenarios to measure the potential change in earnings. Additional to these, ING Bank NV prescribes a key basis point shock and limit for EaR compliance. For the 2017 year, the shock prescribed by ING Bank NV was increased to 135 basis points with an applicable limit of $65m.

Interest rate risk analysis

amounts in millions of dollars	2017	2016
EVS		
99th percentile portfolio economic value change plus basis and optionality risk [1]	(50)	(58)
Limit =≤ $125 (2016: $125)		
EaR		
- 135bps Shock (Year 1) (2016: 100bps Shock)	(63)	(40)
+ 135bps Shock (Year 1) (2016: 100bps Shock)	63	40
Limit =< $65 (2016: $115)		

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

Foreign exchange risk

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

15. Risk management (continued)

(c) Liquidity and funding risk

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

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

The Group's liquidity policy has been developed in accordance with the liquidity management policies of ING Bank N.V. and APRA prudential standards. APRA Prudential Standard APS 210 Liquidity includes the liquidity coverage ratio ("LCR") that measures the Bank's ability to sustain a 30-day pre-defined liquidity stress scenario. The current internal policy requires the Group to maintain a buffer of marketable liquid assets throughout the year. The level of cash and available for sale financial assets was $4,941million at 31 December 2017 (2016: $5,006 million). The Liquidity coverage ratio at 31 December 2017 was 123% (2016: 120%).

The net stable funding ratio ("NSFR"), which became effective 1 January 2018, established a minimum stable funding requirement based on the liquidity profile of the Bank's assets and off balance sheet activity over a one year horizon. The Group's NSFR was above the regulatory minimum of 100% at balance date and a prudent buffer is in place as at 1 January 2018. The NSFR as at 31 December 2017 was 125%.

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

The Group's funding sources include retail deposits and wholesale funding. At 31 December 2017, approximately 71% of the Group's funding was provided by residential and business retail sources (2016: 71%) and 29% was provided by wholesale and other sources (2016: 29%).

15. Risk management (continued)

Maturity analysis of monetary liabilities

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

Consolidated 2017

amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	49,823	27,073	2,644	4,539	10,871	5,758	62	50,947
Derivative liabilities	340	-	-	-	10	121	208	339
Creditors and other liabilities	414	-	92	51	168	25	1	337
Debt issues	3,301	-	17	42	1,165	2,653	-	3,877
Total	**53,878**	**27,073**	**2,753**	**4,632**	**12,214**	**8,557**	**271**	**55,500**
Undrawn loan commitments	7,267	-	2	1,196	223	855	4,991	7,267
Bank accepted guarantees	138	138	-	-	-	-	-	138
Total	**61,283**	**27,211**	**2,755**	**5,828**	**12,437**	**9,412**	**5,262**	**62,905**

Bank 2017

amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	49,966	27,073	2,786	4,539	10,871	5,758	62	51,089
Derivative liabilities	340	-	-	-	10	121	208	339
Creditors and other liabilities	409	-	92	51	168	25	1	337
Debt issues	-	-	-	-	-	-	-	-
Amounts due to controlled entities	9,794	9,794	-	-	-	-	-	9,794
Total	**60,509**	**36,867**	**2,878**	**4,590**	**11,049**	**5,904**	**271**	**61,559**
Undrawn loan commitments	7,267	-	2	1,196	223	855	4,991	7,267
Bank accepted guarantees	138	138	-	-	-	-	-	138
Total	**67,914**	**37,005**	**2,880**	**5,786**	**11,272**	**6,759**	**5,262**	**68,964**

15. Risk management (continued)

Consolidated 2016

amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	45,694	23,287	2,403	4,553	9,496	6,532	65	46,336
Derivative liabilities	293	-	17	25	63	165	36	306
Creditors and other liabilities	352	103	83	65	75	26	1	353
Provision for dividend	100	-	-	100	-	-	-	100
Debt issues	3,187	-	87	552	403	2,290	-	3,332
Total	**49,626**	**23,390**	**2,590**	**5,295**	**10,037**	**9,013**	**102**	**50,427**
Undrawn loan commitments	7,199	-	-	1,676	71	682	4,770	7,199
Bank accepted guarantees	79	79	-	-	-	-	-	79
Total	**56,904**	**23,469**	**2,590**	**6,971**	**10,108**	**9,695**	**4,872**	**57,705**

Bank 2016

amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	45,814	23,287	2,524	4,553	9,496	6,532	65	46,457
Derivative liabilities	291	-	16	25	62	165	36	304
Creditors and other liabilities	347	103	83	65	69	26	1	347
Provision for dividend	100	-	-	100	-	-	-	100
Debt issues	-	-	-	-	-	-	-	-
Amounts due to controlled entities	9,647	9,647	-	-	-	-	-	9,647
Total	**56,199**	**33,037**	**2,623**	**4,743**	**9,627**	**6,723**	**102**	**56,855**
Undrawn loan commitments	7,199	-	-	1,676	71	682	4,770	7,199
Bank accepted guarantees	79	79	-	-	-	-	-	79
Total	**63,477**	**33,116**	**2,623**	**6,419**	**9,698**	**7,405**	**4,872**	**64,133**

16. Capital management

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

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

Capital planning is a dynamic process which involves various teams and covers internal capital target ratios, potential capital transactions as well as projected dividend pay-outs. The integral parts of capital planning comprise business operating plans, stress-testing, ICAAP along with considerations of regulatory capital requirements, accounting changes, taxation rules and expectations of rating agencies.

The capital plan is established on an annual basis and is aligned with management actions included in the 3 year business plans, which includes forecast growth in assets and earnings taking into account the Group's business strategies, projected market and economic environment and peer positioning. All the components of the capital plan are monitored throughout the year and are revised as appropriate.

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

Credit risk capital

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

Operational risk capital

Risk weighted assets for operational risk is calculated under the Basel III Standardised Approach based on the semiannual 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

Under the Basel III Standardised Approach there is no requirement to hold capital to cover the potential risks associated with interest rate risk in the banking book.

Under the internal ratings based approach the Group holds sufficient capital to cover interest rate risk in the banking book. The Group measures this risk by ascribing a portion of the capital adequacy limit to cover the calculated change in economic value from adverse movements in interest rates. The Group has implemented buffer and trigger limit structures (Pillar 2) to ensure that sufficient capital is maintained to meet unexpected changes in the risk profile of the Group resulting from short term movements in market interest rates.

16. Capital management (continued)

Capital Adequacy	Consolidated	
amounts in millions of dollars	2017	2016
Qualifying capital		
Tier 1		
Total equity	4,103	3,737
Reserve adjustments	(142)	(142)
Regulatory adjustments	(155)	(96)
Common Equity Tier 1	**3,806**	**3,499**
Additional Tier 1 Capital	-	-
Total Tier 1 qualifying capital	**3,806**	**3,499**
Tier 2		
General reserve for credit losses and collective provisioning	134	134
Total Tier 2 qualifying capital	**134**	**134**
Total regulatory capital	**3,940**	**3,633**
Total risk adjusted assets and off-balance sheet exposures	**30,897**	**28,348**
Capital adequacy ratio	**12.8%**	**12.8%**
Dividend provided for or paid	**2017**	2016
Franked dividend for 2017: nil (2016: 7.4 cents per share)	-	100

Dividends - Accounting policy

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

17. Fair value of financial instruments

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

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

17. Fair value of financial instruments (continued)

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

Financial asset/liability	Fair value techniques	Assumptions
Cash and cash equivalents	The carrying amount is an approximation of fair value.	Short term in nature or are receivable on demand.
Due from other financial institutions	The carrying amount of amounts due from other financial institutions is an approximation of fair value.	Short term in nature and of high credit rating.
Receivables and other assets	The carrying amount of accrued interest receivable is an approximation of fair value.	Short term in nature.
Loans and advances	For variable loans the carrying amount is an approximation of fair value. For fixed rate loans the fair value is calculated by utilising discounted cash flow models, based on the contractual terms of the loans.	For variable rate loans the discount rate used is the current effective interest rate. For fixed rate loans the discount rate applied reflects the market rate for the maturity of the loan.
Amounts due from controlled entities	The carrying amount of amounts due from controlled entities is an approximation of fair value.	Short term in nature.
Deposits	The carrying amount is an approximation of fair value. For term deposits, the fair value is calculated by utilising discounted cash flow models, based on the maturity of the deposits.	Short term in nature or are payable on demand. For term deposits the discount rate applied is the current rate offered for deposits of similar remaining maturities.
Debt issues	The fair value of debt issues is calculated by utilising discounted cash flow models, based on the estimated future cash flows.	The discount rate applied is based on quoted market prices where available for the instrument and the term of the issue.
Creditors and other liabilities	The carrying amount of creditors and other liabilities is an approximation of fair value.	Short term in nature.
Amounts due to controlled entities	The carrying amount of amounts due to controlled entities is an approximation of fair value.	Arises from imputed loan approach and represents the obligation to repay the Trusts on the equitable assignment of loans.

17. Fair value of financial instruments (continued)

Fair value hierarchy

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

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

The following table presents the fair values of the Group's financial assets and liabilities which are measured at fair value or for which the fair value is disclosed.

31 December 2017

			Fair value hierarchy		
amounts in millions of dollars	Carrying value total	Fair value total	Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Available for sale financial assets	3,961	3,961	3,714	247	-
Derivative assets	28	28	-	28	-
Liabilities measured at fair value:					
Derivative liabilities	340	340	-	340	-
Assets for which fair values are disclosed:					
Loans and advances - Variable	35,243	35,243			
Loans and advances - Fixed	17,316	17,361	-	-	17,361
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call	27,079	27,079			
Deposits and other borrowings - term	22,744	22,838	-	480	22,358
Debt issues	3,301	3,311	-	3,311	-
Bank					
Assets measured at fair value:					
Available for sale financial assets	3,961	3,961	3,714	247	-
Derivative assets	20	20	-	20	-
Liabilities measured at fair value:					
Derivative liabilities	340	340	-	340	-
Assets for which fair values are disclosed:					
Loans and advances - Variable	35,243	35,243			
Loans and advances - Fixed	17,316	17,361	-	-	17,361
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call	27,222	27,222			
Deposits and other borrowings - term	22,744	22,838	-	480	22,358

17. Fair value of financial instruments (continued)

31 December 2016

amounts in millions of dollars	Carrying value total	Fair value total	Fair value hierarchy Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Available for sale financial assets	4,166	4,166	3,415	750	1
Derivative assets	51	51	-	51	-
Liabilities measured at fair value:					
Derivative liabilities	293	293	-	293	-
Assets for which fair values are disclosed:					
Loans and advances - Variable	33,552	33,552			
Loans and advances - Fixed	14,271	14,322	-	-	14,322
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call	23,293	23,293			
Deposits and other borrowings - term	22,401	22,498	-	273	22,225
Debt issues	3,187	3,197	-	-	-
Bank					
Assets measured at fair value:					
Available for sale financial assets	4,166	4,166	3,415	750	1
Derivative assets	28	28	-	28	-
Liabilities measured at fair value:					
Derivative liabilities	291	291	-	291	-
Assets for which fair values are disclosed:					
Loans and advances - Variable	33,552	33,552			
Loans and advances - Fixed	14,271	14,322	-	-	14,322
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call	23,413	23,413			
Deposits and other borrowings - term	22,401	22,498	-	273	22,225

Transfers between Level 1 and Level 2

There have been no transfers during the year.

Valuation process for Level 3 valuations

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

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

There were no changes in valuation techniques during the year.

17. Fair value of financial instruments (continued)

Quantitative information of significant unobservable inputs – Level 3				Consolidated and Bank
Description	$millions	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities 31 December 2017	-	DCF Method	Weighted Average Life Credit spread	N/a
Mortgage-backed securities 31 December 2016	1	DCF Method	Weighted Average Life Credit spread	1.6 – 3.2 years 339-400bps

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy			Consolidated and Bank
Description	Input	Sensitivity used	Effect on fair value $000
Mortgage-backed securities 31 December 2017	Weighted Average Life Credit spread	+/-10% +/-10%	N/a N/a
Mortgage-backed securities 31 December 2016	Weighted Average Life Credit spread	+/-10% +/-10%	+/-6 +/-41

Level 3 reconciliation

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

Available for sale financial assets: Mortgage-backed securities		
amounts in millions of dollars	Consolidated	Bank
Opening balance – 1 January 2017	1	1
Transfers into or (out of) Level 3	-	-
Total gains and losses		
- Other comprehensive income	(1)	(1)
Closing balance – 31 December 2017	**-**	**-**
Opening balance – 1 January 2016	2	2
Transfers into or (out of) Level 3	-	-
Total gains and losses		
- Other comprehensive income	(1)	(1)
Closing balance – 31 December 2016	**1**	**1**

18. Share based payments

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

Share options	2017		2016	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	173,299	€ 14.91	202,457	€ 17.36
Lapsed or forfeited during the year	(41,858)	€ 24.32	(74,193)	€ 21.16
Exercised during the year	(6,399)	€ 5.94	-	-
Transferred during the year	(15,367)	€ 14.91	45,035	€ 13.10
Outstanding at the end of the year	**109,675**	**€ 11.84**	**173,299**	**€ 14.62**
Exercisable at the end of the year	**109,675**	**€ 11.84**	**173,299**	**€ 14.62**

18. Share based payments (continued)

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

Performance units	2017		2016	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	178,602	€ 10.47	157,784	€ 10.14
Forfeited during the year	(12,638)	€ 11.53	(18,943)	€ 10.60
Granted during the year	121,428	€ 13.03	166,038	€ 10.24
Performance effect	11,148	€ 10.56	12,539	€ 9.00
Vested during the year	(132,183)	€ 11.43	(142,088)	€ 9.58
Transferred during the year	(1,807)	€ 10.47	3,272	€ 8.29
Outstanding at the end of the year	**164,550**	**€ 11.51**	**178,602**	**€ 10.51**

The outstanding balances of share options as at 31 December 2017 are:

Year of Grant	2017		2016	
	Number of Options	Exercise Price	Number of Options	Exercise Price
2006	-	-	-	-
2007	-	-	42,086	€ 24.72
2008	58,589	€ 16.62	65,692	€ 16.62
2009	11,306	€ 2.90	17,887	€ 2.90
2010	39,780	€ 7.35	47,634	€ 7.35
Total	**109,675**	**€ 11.84**	**173,299**	**€ 14.62**

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 2017 are:

Year of Grant	2017		2016	
	Number of Performance Units	WAGP	Number of Performance Units	WAGP
2013	-	-	-	-
2014	-	-	21,169	€ 9.44
2015	19,483	€ 12.17	42,336	€ 12.42
2016	63,105	€ 9.65	115,097	€ 10.01
2017	81,962	€ 12.78	-	-
Total	**164,550**	**€ 11.51**	**178,602**	**€ 10.51**

All performance units are granted in the ultimate parent entity, ING Groep N.V. and vest 3 years from the issue date at the exercise price noted above. The actual expense for share based payments for 2017 net of tax is $2,470K (2016: $1,912K).

The fair value of share options granted is recognised as an expenses under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a European Black Scholes formula. This model takes the risk free interest rate into account (2.02% to 4.62%), as well as the lifetime of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 25.42), the expected volatility of the certificates of ING Groep N.V. shares (25% - 84%) and the expected dividend yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Share options have a weighted average contractual maturity of 10 years while performance units have a weighted average contractual maturity of 2 years. The weighted average remaining contractual life for share options outstanding is 2 years.

18. Share based payments (continued)

Share-based payment transactions – Accounting policy

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

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

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

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

Employee share option plan

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

Employee performance units plan

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

19. Commitments and contingencies

Bank	2017		2016	
amounts in millions of dollars	Unused	Available	Unused	Available
Liquidity facilities to related entities	212	212	209	209

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

Consolidated		
amounts in millions of dollars	2017	2016
Commitments to extend credit		
- undrawn loan commitments	7,267	7,199
- bank accepted guarantees	138	79
Total commitments to extend credit	**7,405**	**7,278**
Operating leases – land & buildings *		
Lease payments due:		
- not later than 1 year	11	10
- later than 1 year and less than 5 years	36	36
- later than 5 years	45	54
Total minimum lease payments	**92**	**100**

*Operating leases are the leases of the premises the Group occupies at 60 Margaret Street (Sydney), 3 Reliance Drive (Tuggerah), 6 Reliance Drive (Tuggerah), 114 William St (Melbourne), 6-12 Hurtle Parade, Mawson Lakes (Adelaide), 100 Edward Street (Brisbane), 474 Murray Street (Perth) and the lease for 140 Sussex Street (Sydney) which expired on 31 May 2017.

19. Commitments and contingencies (continued)

Leases – Accounting Policy

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

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

The Group did not have any finance or leveraged leases in place as at 31 December 2017 (2016: Nil).

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

20. Related party disclosures

Key management personnel compensation

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

Specified Directors:

Michael Katz	Director (Non-Executive)
Amanda Lacaze	Director (Non-Executive)
John Masters	Director (Non-Executive)
Ann Sherry AO	Director (Non-Executive) (resigned 30 October 2017)
Mark Newman	Director (Non-Executive)
Aris Bogdaneris	Director (Non-Executive)
Uday Sareen	Director (Executive)

Specified Executives:

Alan Lee	Chief Financial Officer
Ulrich Heitbaum	Chief Risk Officer (appointed 1 March 2017)
Adriana Sheedy	Executive Director, Operations (appointed 1 January 2017)
Aniruddha Paul	Chief Information Officer (appointed 13 March 2017)
Melanie Evans	Head of Retail Banking (appointed 15 March 2017)
Fiona Monfrooy	Executive Director, Human Resources
Michael Witts	Treasurer
Charles Ho	Head of Wholesale Banking (appointed 1 June 2017)
Bart Hellemans	Chief Risk Officer (retired 1 March 2017)
Roy Shiladitya	Acting Chief Information Officer (1 January 2017 to 13 March 2017)
John Arnott	Executive Director, Customers (resigned 27 October 2017)

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

amounts in thousands of dollars	2017	2016*
Short-term employee benefits	6,240	6,439
Other long-term benefits	580	1,720
Share-based payments	763	1,330
Termination benefits	394	250
Post-employment benefits	-	-
Total compensation	**7,977**	**9,739**

*2016 included payments made to a number of specified executives who either retired from office or left the group.

20. Related party disclosures (continued)

Loans have been provided to key management personnel and these loans were conducted in the normal course of business and on terms applicable to the Group's personnel. Other transactions entered into by key management personnel during the financial year related to personal banking, superannuation, insurance and deposit transactions. These transactions are considered domestic in nature, were on normal commercial terms and conditions and in the ordinary course of business.

Transactions with entities in the wholly owned group

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

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

Consolidated				
amounts in thousands of dollars	2017	For the period	2016	For the period
Aggregate amounts receivable from related parties in the wholly owned group	424,110	16,521	300,455	10,534
Aggregate amounts payable to the ultimate controlling entity	-	(15,100)	(100,366)	(12,206)
Aggregate amounts payable to related parties in the wholly owned group	(9,219,958)	(220,207)	(8,175,242)	(211,401)
Total	**(8,795,848)**	**(218,786)**	**(7,975,153)**	**(213,073)**

Transactions with controlled entities

Bank				
amounts in thousands of dollars	2017	For the period	2016	For the period
Aggregate amounts receivable from controlled entities	6,795,615	318,248	6,733,374	323,801
Aggregate amounts due to controlled entities	(9,794,342)	(274,976)	(9,647,364)	(302,373)
Total	**(2,998,727)**	**43,272**	**(2,913,990)**	**(21,428)**

21. Auditor's remuneration

	Consolidated		Bank	
amounts in thousands of dollars	2017	2016	2017	2016
Amounts paid or due and payable for audit of the consolidated financial report by the auditor	596	445	416	280
Amounts paid or due and payable for other services to the auditor:				
Regulatory services	299	149	299	149
Taxation services	-	-	-	-
Other services	239	232	239	232
Total	**1,134**	**826**	**954**	**661**

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

22. Subsequent events

No subsequent events or transactions have occurred since the year ended 31 December 2017, or are pending, that would have a material effect on the financial statements.

23. Other accounting policies and accounting standard developments

The following Australian Accounting standards have been issued but are not yet effective, they are available for early adoption but have not been adopted by the Group for the annual reporting period ending 31 December 2017:

AASB 9 *Financial Instruments* will replace AASB 139 '*Financial Instruments: Recognition and Measurement*' and includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The new requirements are effective for annual periods beginning on or after 1 January 2018 and will be applied by the Group as of 1 January 2018. The Group applies the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, and has decided not to restate comparative periods and not to early apply the changed own credit risk requirements, as permitted by AASB 9. In October 2017, the IASB issued an amendment to AASB 9 with regard to prepayment features with negative compensation. This change allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortised cost or at fair value through other comprehensive income. The amendment will be effective for annual period beginning or after 1 January 2019. The Group will early adopt the amendment to AASB 9 as of 1 January 2018 as permitted. Based on the assessments carried out, the Group does not expect that this change will have an impact.

The Group decided to continue applying AASB 139 for hedge accounting including the application of the carve out as explicitly permitted by AASB 9. The revised hedge accounting disclosures as required by AASB 7 'Financial Instruments: Disclosures' as per 1 January 2018 will be implemented across the Group.

AASB 9 program governance and status
The AASB 9 programme was initiated in 2015 and was set-up based on the three pillars of the AASB 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central work streams consisted of experts from Finance, Risk, Bank Treasury, Operations and the Business. The AASB 9 Technical Board consisted of the heads of various Finance and Risk functions supporting the AASB 9 Steering Committee by reviewing the interpretations of AASB 9, the central guidance, and instructions as prepared by the central work streams. The AASB 9 Steering Committee was the key decision making body and consists of senior managers from Finance, Risk, Bank Treasury and Wholesale Banking Lending Services. The Audit Committee were periodically updated about AASB 9 and the key decisions.

In 2017 the program's focus was on:
- Performing three 'parallel runs' to test readiness of systems, processes and controls for transition to AASB 9 as per 1 January 2018.
- Completion and validation of the new expected credit loss models;
- Developing and implementing processes for staging and using forward looking economic guidance in the Expected Credit Losses models.
- Finalising technical interpretation of the AASB 9 standard;
- Finalising the business model assessment and solely payments of principal and interest testing for Classification and Measurement purposes;
- Implementing and testing system changes;
- Updating the policies, governance and control frameworks that are impacted by AASB 9 and starting to embed these changes into everyday business and financial reporting cycles; and
- Preparing the AASB 9 transition disclosure plan.

The Group has almost completed the implementation of AASB 9. The main procedures that are in the process of being finalised are the transfer of program activities to the Business and the completion of the last model validations.

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

Classification and Measurement

AASB 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements.

Two criteria are used to determine how financial assets should be classified and measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL):

1. The business model assessment, performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as hold to collect (HtC), hold to collect & sell (HtC&S), or other; and

2. The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are solely payments of principal and interest (SPPI). Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risk and costs as well as margin.

A financial asset is measured at AC if it is held within a HtC business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. A financial asset is measured at FVOCI if it is held within a HtC&S business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. Financial assets not classified as AC or FVOCI are measured at FVPL.

The Group's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. The SPPI testing was carried out on a sample basis conducted after the financial assets within the business models were stratified based on an analysis of product characteristics. In performing the SPPI testing, the Group considered the contractual terms of the instruments. This included assessing whether the financial assets contained a contractual term that would change the amount or timing of contractual cash flows such that they would no longer be SPPI compliant. In making the assessment, terms including the following were considered:

- Prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty capped to 3 or 6 months of interest. This could still be consistent with the SPPI criterion if the penalty is considered a reasonable compensation for early termination of the contract;
- Leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest; An example is a Libor contract with a multiplier of 1.3.
- Terms that limit the Group's claim to cash flows from specified assets eg. non-recourse asset arrangements; this could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing.
- Features that modify consideration for the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate.

A number of key accounting policy choices were required for the Classification and Measurement of the Group's financial assets, such as permissible sales in a HtC business model, benchmark testing on financial assets with a modified time value of money and the classification of financial assets linked to syndications or securitisations and accounting for prepayments. The decision making process for such policy choices followed the AASB 9 programme governance, with technical matters researched, decisions documented, and conclusions proposed by the Group's AASB 9 Technical Board for approval by the AASB 9 Steering Committee.

AASB 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated at FVPL are recognised in profit or loss, whereas under AASB 9 the fair value changes are presented as follows:
- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI. Upon derecognition this debt value adjustment (DVA) impact shall not be recycled from OCI to profit or loss upon derecognition; and
- The remaining amount of change in the fair value is presented in profit or loss.

There was no impact of this change as no amount was reclassified within equity from Retained earnings to OCI.

Impact

As a result of the combined application of the business model analysis and SPPI test, the classification and measurement of the following portfolios will change:
- The most significant change is the reclassification of a part of the AFS investment portfolio, which will be split into a portfolio classified at amortised cost and a portfolio at FVOCI. Approximately $1,075 million of debt securities previously classified at AFS under IAS 39 will be measured at amortised cost based on the AASB 9 HtC business model. The reclassification from AFS to amortised cost will result in a reduction in the unrealised revaluation loss in equity at transition date of approximately $1 million.

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

Impairment

The implementation of AASB 9 has a significant impact on the Group's impairment methodology. The expected credit loss (ECL) model is a forward-looking model. The ECL estimates are unbiased, probability-weighted, and include supportable information about past events, current conditions, and forecasts of future economic conditions. The ECL model reflects three macroeconomic scenarios via a baseline, up and down scenario and include the time value of money. The model applies to on-balance financial assets accounted for at amortised cost and FVOCI such as loans, debt securities and lease receivables, as well as off-balance items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities. Compared to the scope under IAS 39, the main change is the inclusion of off balance sheet exposures and HTC&S financial assets. The Group aligned the definition of credit impaired under AASB 9 with the definition of default for prudential purposes.

The Group's approach leveraged the existing regulatory capital models used for regulatory purposes. For other portfolios that use the Standardised Approach to calculate regulatory capital, the Group developed new ECL models.

Three stage approach

The Group will apply the AASB 9 three stage approach to measure expected credit losses:

- Stage 1: 12 month ECL – No significantly increased credit risk.
  Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a probability of default is used that corresponds to the remaining maturity.
- Stage 2: Lifetime ECL – Significantly increased credit risk
  In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).
- Stage 3: Lifetime ECL – Defaulted
  Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. The Group established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration. ING Group assesses significant increase in credit risk using:

- Delta in the lifetime default probability;
- Forbearance status;
- Watch list status. Loans on the watchlist are individually assessed for stage 2 classification;
- Intensive care management;
- Internal rating;
- Arrears; and the
- More than 30 days past due backstop for stage 1 to stage 2 transfers.

Lifetime probability of default is the main trigger for movement between Stage 1 and Stage 2 and is determined by comparing lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the part of the curve that covers the remaining maturity. Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore (taking into account the regulatory probation periods). The stage allocation is implemented in the central credit risk systems.

Macroeconomic scenarios

The Group has established a quarterly process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. The Group applies predominantly data from a leading service provider enriched with the internal group view. To reflect an unbiased and probability-weighted ECL amount, a baseline, an up-scenario and a down-scenario are determined. As a baseline scenario, the Group applies the market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, house prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed forecast errors in the past, adjusted for the risks affecting the economy today and the forecast horizon. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

As the inclusion of forward-looking macroeconomic scenarios requires judgement, a Macroeconomic Scenarios team and a Macroeconomic Scenarios Expert Panel were established. The Macroeconomic Scenarios team is responsible for the macroeconomic scenarios used for AASB 9 ECL purposes with a challenge by the Macroeconomic Scenarios Expert Panel. This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate short term risks, are taken

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

into consideration when developing the macroeconomic scenarios used in the calculation of ECL. The Macroeconomic Scenarios Expert Panel is a diverse team composed of senior management representatives from the Business, Risk and Finance and an external party.

Measurement

The calculation of AASB 9 ECL leverages on the Group's expected loss models; probability of default (PD), loss given default (LGD), exposure at default (EAD) currently used for regulatory capital, economic capital, and collective provisions in the current IAS 39 framework. These models are adjusted for 1) removal of embedded prudential conservatism (such as floors), 2) provide forward-looking point in time estimates based on macroeconomic predictions and 3) a 12 month or lifetime view of credit risk where needed. Lifetime features are default behaviour over a longer horizon, full behaviour after the default moment, repayment schedules and early settlements. For most financial instruments, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, open ended assumptions are taken as these do not have a fixed term or repayment schedule.

To measure ECL, the Group applies a PD x EAD x LGD approach incorporating the time value of money. For stage 1 assets a forward-looking approach on a 12 month horizon will be applied. For stage 2 assets a lifetime view on the credit is applied. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months till maturity. For stage 3 assets the PD equals 100% and the LGD and EAD represent a lifetime view of the losses based on characteristics of defaulted facilities.

Impact

As a result of the new AASB 9 impairment requirements, the Group expects that the loan loss provisions increase by approximately $15 million. The split of the ECL to different stages of our portfolio is further detailed in the table below:

Expected credit losses per stage as at 1 January 2018

amounts in millions of dollars		IFRS 9 impairment stages	Carrying amount	ECL increase	IFRS 9 ECL
IAS 39 LLP					
Incurred but Not Reported (IBNR)	8	Stage 1 - 12 month ECL	44,506	5	13
		Stage 2 - Lifetime ECL	7,669	10	10
Individual provisions (ISFA, INSFA)	17	Stage 3 - Lifetime ECL	409	-	17
Total	**25**		**52,584**	**15**	**40**

AASB 9 Impact on capital and other regulatory requirements

AASB 9 will impact the Group's reported capital as a result of the transition adjustments recorded in shareholder's equity on transition date. The BCBS pointed out that the treatment of provisions under both the Standardised Approach and the Advanced Internal Ratings based frameworks remains, but allows jurisdictions the option to choose whether to apply a transitional arrangement for the impact of impairment under AASB 9. As a result, the EU introduced transitional arrangements for mitigating the impact of the introduction of AASB 9 impairment on own funds in the Capital Requirements Regulations (CRR). The Group has decided not to apply the AASB 9 impairment transitional arrangements.

The estimated impact of the adoption of AASB 9 on shareholders' equity is approximately a loss of $12 million and 1 bps increase on CET 1 capital at implementation date 1 January 2018, consisting of:

Estimated impact of adopting AASB 9 (net of tax) on shareholders' equity and CET 1 (in bps) at 1 January 2018

amounts in millions of dollars	Estimated impact on shareholders' equity	Estimated impact on CET 1 (bps)
Loan loss provisions	11	1
Investment portfolio	1	-
Total impact	**12**	**1**

The estimated impact on the Total Capital Ratio is a 2 bps decrease at implementation date 1 January 2018. This is driven by stage 2 assets which are no longer included in Tier 2 capital as part of the General Reserve for Credit Losses.

The impact on other regulatory ratios is not expected to be material.

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

AASB 15 – Revenue from Contracts with Customers

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. To determine when revenue is recognised and at what amount a five-step model is applied.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 15.

AASB 16 – Leases

AASB 16 makes changes to the accounting for leases as a lessee and replaces AASB 117 'Leases'. The standard is effective for annual periods beginning on or after 1 January 2019.

AASB 16 introduces a single on-balance sheet model for lessees similar to the requirements of AASB 117 'Leases'. A lessee is required to recognise an asset representing its right-of-use of the underlying asset during the lease and a lease liability representing its obligation to make lease payments. The lessee will be required to separately recognise the interest expense on the liability and depreciation expense of the underlying asset. There are exemptions for short-term leases (lease term of less than 12 months) and low-value assets.

Lessor accounting is substantially unchanged from the current requirements prescribed by AASB 117. A lessor will continue to classify leases between operating and finance leases and account for the two types of leases differently.

The Group is yet to evaluate the potential impact of AASB 16 on its financial statements.

Consolidation

Subsidiaries

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

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

Securitisation

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

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

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

Structured entities

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

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

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

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

Assets used in securitisation programmes

amounts in millions of dollars	2017	2016
Residential mortgages	9,840	9,679
Total	**9,840**	**9,679**

Facilities used in securitisation programmes

amounts in millions of dollars	2017	2016
Liquidity facilities	212	209
Total	**212**	**209**

Foreign currencies

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

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

Impairment of other financial assets

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

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement.

Recoverable amount of assets

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

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

Property, plant and equipment

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

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

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

Major depreciation and amortisation periods are:

Category	2017	2016
Computer software	3 - 5 years	3 - 5 years
Computer hardware	3 - 5 years	3 - 5 years
Leasehold improvements	Term of lease	Term of lease
Personal computers	3 years	3 years

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

Derecognition of fixed assets

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposable proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

Intangible assets

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

Recognition of financial assets

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

Derecognition of financial assets

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

Goods and services tax

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

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

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

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

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

Creditors and other liabilities

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

Operating expenses

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

Reclassification of comparatives

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

Directors' declaration

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

In the opinion of the Directors:

a) The Financial Statements and notes of the Bank and its controlled entities (Group) are in accordance with the Corporations Act 2001, including;

   i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

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

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

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

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

Michael Katz
Chairman

Uday Sareen
Director

Sydney
23 March 2018

Independent Auditor's Report

To the shareholders of ING Bank (Australia) Limited,

Opinion

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

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

- giving a true and fair view of the Group and Company's financial position as at 31 December 2017 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises the:

- Consolidated Balance Sheets as at 31 December 2017;
- Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity, and Consolidated Statements of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Other Information

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

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

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

We are required to report if we conclude that there is a material misstatement of this Other Information, KPMG

and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Martin McGrath
Partner

Sydney
23 March 2018

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