

Annual Report 2012

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CEO'S YEAR IN REVIEW

ING Bank (Australia) Limited performed well in 2012 amidst challenging market conditions. We generated an annual net profit of \$276.2 million, compared to \$304.3 million in 2011. Our funding costs were difficult in the first half of the year but an easing in costs over the second half allowed us to deliver 25bps cuts to retail variable mortgages in both October and December. Striking the right balance between the customer and shareholder enabled us to deliver on our fair value promise to customers.

Our Customers

We pride ourselves on delivering exceptional customer service and this was reflected in us achieving the highest ranking for *Net Promoter Score* (a net measure of the proportion of customers likely to recommend their financial institution) of all banks in Australia (as measured by the Nielsen Financial Services Monitor).

Throughout 2012 we continued to strengthen relationships with our customers, making it easy for them to bank with us. We rewarded our *Savings Maximiser* customers by introducing a loyalty bonus, and gave our *Orange Everyday* customers a 5% rebate on purchases under \$100 through our *Wave and Save* offer.

In August we re-launched our brand to customers with our *Spend Your Life Well* campaign, encouraging them to make the right financial choices at each stage in life. The number of customers who have two or more products with us increased from 125,000 to nearly 150,000 in 2012, showing the progress of our strategy to encourage customers to choose ING DIRECT as their primary bank.

Our People

Our success in 2012 was a direct result of the hard work and dedication of our employees. The passion and energy which our people display every day is the foundation of our unique culture and commitment to delivering an exceptional customer experience.

Awards

We received a number of accolades in 2012 recognising our products and services. Whilst we are always honoured to receive industry recognition, the awards that we are most proud of are those which are voted on by our customers. These include being awarded **Best Direct Bank**, **Best Term Deposits** and **Best Debit Card** in the *Mozo People's Choice Awards*.

Deposits

Our deposits portfolio increased by \$2.4 billion last year in a competitive savings market. As at 31 December 2012, our total deposits portfolio was \$28.5 billion, up 9% on the previous year. All deposits raised remain in the country and fund Australian mortgages.

We continued to pursue diverse funding sources to strengthen our liabilities. Our middle market term deposit portfolio increased from \$1.3 billion in 2011 to over \$2.3 billion in 2012. In addition, customers continued to take up

our "fee free" *Orange Everyday* product, with over 137,000 accounts as of 31 December 2012.

Residential Mortgages

Our retail mortgage portfolio increased by \$0.4 billion in 2012, in line with our growth plan. As at 31 December 2012, our total residential mortgage portfolio was \$37.8 billion, representing a year on year increase of 1%.

The credit quality of our mortgage portfolio remained strong in 2012, with a low level of arrears and defaults. Loan loss provisions decreased from \$48.7 million to \$15.8 million, as a result of our reassessment of our mortgage portfolio.

We made a number of improvements to our residential mortgage processes. These included automation of the loan variation process through mortgage brokers, which substantially improved the experience for our customers and broker partners.

Commercial Loans

In line with ING's global strategy to pursue a conservative plan for the commercial loans portfolio which was \$3.3 billion at 31 December 2012, Commercial Property Finance ("CPF") decreased its portfolio by \$174 million to \$2.2 billion.

In a challenging commercial property environment, as at December 2012, provisioning within the commercial loans portfolio increased to \$75.9 million (of which \$17.7 million were specific provisions in 2012), reflecting the cautious outlook on the market. The overall portfolio continues to perform strongly.

Superannuation

In September 2012 we entered the superannuation market with the launch of our ground-breaking *Living Super* product – incorporating the first balanced superannuation fund available to all Australians with no administration or management fees. The launch was attended by Federal Minister for Financial Services and Superannuation, Bill Shorten.

Living Super was well received by customers, industry and media alike; nearly 6000 accounts were opened by 31 December 2012, and it was awarded *Money Magazine's Best of the Best 2013* for **Lowest-Cost Default Super Fund** and **Lowest-Cost Default Pension Fund**.

Efficiency

Our cost to income ratio of 35% continues to lead the market and highlights the effectiveness of our 'lean bank' model. Efficiency improvements included the implementation of our virtual "Bank-in-a-Box" IT platform, allowing simultaneous testing and faster delivery to market of products, services and enhancements; and managing growth whilst managing headcount throughout 2012.

Funding and Liquidity

We undertook several initiatives to enhance our funding and liquidity profile. In particular, we focused on increasing our proportion of deposit funding with our deposit to lending ratio reaching 69% as of 31 December 2012, up from 64% in 2011. The Bank continued to be an active issuer of Residential Mortgage Backed Securities, issuing \$1.75 billion in two issues during the year.

Our Treasury function completed the integration with ING Bank NV Sydney Branch, consolidating ING Group's banking operations in Australia. The resulting single, integrated treasury operation in Australia has enabled us to increase the efficiency of local funding activity.

Despite remaining susceptible to global pressures, conditions in wholesale funding markets were relatively more stable at the end of 2012. The Bank's key funding and liquidity ratios are strong, our Balance Sheet structure is sound and we are well positioned to meet the Basel III liquidity requirements as they progressively come into force.

Capital

The Bank's capital adequacy ratio stands at a healthy 12.6% at the end of 2012. The ratio continues to be well above the regulatory minimum and is sufficient to support all current growth plans over the medium term. We understand the importance of a strong Balance Sheet and continue to retain all earnings within Australia. Our capital position provides a foundation for long term growth.

We made significant progress with our program to achieve Basel II Advanced status, and routinely engaged with the regulator during 2012. We plan to complete the remaining operational risk requirement for Advanced Accreditation before the end of 2013.

Sustainability

In 2012, we made progress in our sustainability program, balancing social, environmental and economic considerations in managing our business.

We developed stronger community links by increasing our overall contribution to our four major partners – *Cerebral Palsy Alliance*, *United Way*, the *National Centre of Indigenous Excellence* and the *School for Social Entrepreneurs* – as well as to the ING Bank Foundation, via staff fundraising, employee volunteer time and monetary support.

Last year, staff fundraising increased by 71% and our employees gave over 3,300 hours of their time through individual, team and skilled volunteering, a 22% increase on 2011. The ING Bank Foundation also made a number of financial grants to community organisations to assist young people to fulfill their potential.

We also focused on reducing our environmental footprint, cutting down on energy use, minimising consumption and increasing environmental awareness throughout the Bank.

Outlook

Following a profitable and successful 2012, ING DIRECT Australia is well-positioned for a strong performance in 2013. The addition of *Living Super* to our already compelling product range, as well as our commitment to providing a great customer experience, has reinforced ING DIRECT's position as a real alternative to the "Big 4" banks in Australia.

In 2013 I look forward to further progress in executing our strategy to become the primary bank for our customers. We will achieve this through providing an outstanding experience for our customers and distribution partners, and in harnessing and growing the talents and potential of our people.

Vaughn Richtor

Chief Executive Officer,
ING DIRECT Australia

Directors' Report

The Directors of ING Bank (Australia) Limited submit their report, together with the financial report of the Bank and its controlled entities being:

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

for the year ended 31 December 2012.

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

DIRECTORS' QUALIFICATIONS AND SPECIAL RESPONSIBILITIES

Michael Katz, BComm (Hons), Chairman

Mr Katz was appointed Director in January 2010 and was appointed Chairman of the Bank 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, BA

Ms Lacaze was appointed Director in May 2011. Ms Lacaze is a member of the Audit and Risk Committees.

Cornelis Petrus Adrianus Joseph Leenaars, LL.M, PMD (from 29 March 2012)

Mr Leenaars was appointed Director on 29 March 2012. Mr Leenaars is a member of the Audit, Risk and Remuneration and Nomination Committees.

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

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

Vaughn Nigel Richtor, BA (Hons), Chief Executive Officer (from 1 August 2012)

Mr Richtor was appointed Director in February 2010 and was a member of the Audit and Risk Committees. Mr Richtor was appointed Chief Executive Officer on 1 August 2012 and since this date has resigned from the Audit Committee while continuing to be a member of the Risk Committee.

Ann Sherry AO, BA

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

Brunon Cezary Bartkiewicz, MEc (to 29 March 2012)

Mr Bartkiewicz was appointed Director in October 2010 and resigned effective 29 March 2012. Mr Bartkiewicz was a member of the Audit, Risk and Remuneration and Nomination Committees.

Donald Joseph Koch, Masters in Banking and Finance, Chief Executive Officer (to 31 July 2012)

Mr Koch was appointed Director and Chief Executive Officer in June 2009 and resigned from these positions effective 31 July 2012. Mr Koch was a member of the Risk Committee.

COMPANY SECRETARY

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

Mr Sinnamon was appointed Company Secretary in December 2007 and attends all meetings of the Board and its Committees. Mr Sinnamon is also the Head of Legal, Compliance and Operational Risk for the Bank.

MEETINGS OF DIRECTORS

Director (eligible to attend)	Number held	Number attended
M Katz	8	8
B Bartkiewicz	2	1
D Koch	3	3
A Lacaze	8	8
C Leenaars	6	1
J Masters	8	8
V Richtor	8	8
A Sherry AO	8	5

COMMITTEE MEETINGS

Director (eligible to attend)	Audit Committee		Risk Committee		R&N Committee*	
	Held	Attended	Held	Attended	Held	Attended
M Katz	6	6	6	6	3	3
B Bartkiewicz	2	1	2	1	1	0
D Koch	0	0	3	3	0	0
A Lacaze	6	6	6	6	0	0
C Leenaars	4	2	4	2	2	1
J Masters	6	6	6	6	0	0
V Richtor	3	3	6	6	0	0
A Sherry AO	6	4	6	5	3	2

* R&N Committee - Remuneration and Nomination Committee

Directors' Report

CORPORATE STRUCTURE

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

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

EMPLOYEES

The Bank employed 970 permanent employees as at 31 December 2012 (2011: 984 permanent employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity at 31 December 2012 was \$3,234 million (2011: \$2,914 million). The movement was due to profit for the year plus the movement in Balance Sheet reserves.

The Bank continued to hold notes issued by the IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1 and IDOL Trust Series 2011-2. During the year, two new Trusts were established, IDOL Trust Series 2012-1 on 12 April 2012 and IDOL Trust Series 2012-2 on 10 October 2012. The Bank also holds notes issued by these Trusts. All of these Trusts are special purpose entities consolidated by the Bank.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No significant events have occurred since the balance date that would materially impact on the financial position of the Bank as disclosed in the Balance Sheet at 31 December 2012, or on the results and cash flows of the Bank for the year ended on that date.

Signed in accordance with a resolution of the Directors.


Michael Katz
Chairman

Sydney
28 February 2013

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Bank under ASIC Class Order No. 98/0100. The Bank is an entity to which the Class Order applies.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Constitution of the Bank require it to indemnify all current and former officers of the Bank against:

- any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person's favour or in which the person is acquitted or in connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- a liability incurred by the person, as an officer of the Bank 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, the Bank paid an insurance premium in respect of a contract insuring each of the Directors of the Bank named earlier in this report and each director, secretary and officers. 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 officers in their capacity as officers of the Bank or a related body corporate.

AUDITOR'S INDEPENDENCE DECLARATION

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


Vaughn Richter
Director

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

In relation to our audit of the financial report of ING Bank (Australia) Limited for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized, handwritten signature in black ink, likely representing the firm's official stamp or a specific partner's signature.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Steve Ferguson'.

Steve Ferguson
Partner
Sydney
28 February 2013

BOARD RESPONSIBILITIES

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

Composition of the Board

The Board comprises five Non-Executive Directors (one of whom is representative of ING Groep NV) and one Executive Director at the date of this report. The Chairman is a Non-Executive Director. The Board met eight times this year with a minimum meeting requirement of at least three times a year.

Board Responsibilities

The Board acts on behalf of, and is accountable to, 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 indeed 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 Bank at least once every year and has external experts address 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 Bank. External Directors are appointed for an initial term of four years.

The responsibility for the operation and administration of the Bank 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 NV global succession planning procedures identify candidates to fill the position of Chief Executive Officer (if it becomes vacant) and provides other alternative candidates so there is continuity of leadership regardless of the circumstances.

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

ING Bank (Australia) Limited and controlled entities
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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 Bank's vision, mission and strategy statements which are designed to meet shareholders' needs, regulatory requirements and manage business risks. The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to foster the growth and success of the Bank.

(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 Bank.

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 include a Local Credit Committee, an Asset and Liability Management Committee and a Non-Financial Risk Committee, amongst others. Other Committees are formed as required to assist Management in fulfilling their Corporate Governance obligations and include the Prioritisation Review Committee and the Provisioning Committee. All business unit level Committees are run by appropriate Senior Executives of the Bank.

Audit Committee

The Committee, chaired by Mr J Masters, assists the Board with regard to its responsibility for overseeing that an effective internal control framework exists within the Bank. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes which involve safeguarding of assets, the maintenance of proper accounting records as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Committee assists the Board in the establishment and maintenance of a framework of internal control and ethical standards for the management of the Bank. The Committee meets at least three times a year.

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

Further, the 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.



BOARD RESPONSIBILITIES (CONTINUED)

Risk Committee

The Risk Committee, chaired by Ms A Sherry AO, is responsible for overseeing the Bank's assessment and management of credit risk, market risk and operational risk including insurance, legal and compliance matters. The Risk Committee ensures a holistic approach to risk management within the Bank. It ensures the Bank maintains its established policy of effective and informed risk management, reporting to the Board as necessary, and being available to meet with regulators (such as ASIC and APRA) on behalf of the Bank, when requested. This Committee generally meets on the same day as the meeting of the Board.

Remuneration and Nomination Committee

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

All Committees perform additional functions as the Board of Directors may from time to time require. These other functions are required of the Committee 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 Bank's business.

Financial Statements

Income Statement for the year ended 31 December 2012

amounts in thousands of dollars	Note	Consolidated		Bank	
		2012	2011	2012	2011
Interest income		2,772,430	3,124,604	2,764,736	3,124,269
Interest expense		(2,186,091)	(2,483,046)	(2,181,571)	(2,483,046)
Net interest income	4	586,339	641,558	583,165	641,223
Net non-interest income		17,647	20,223	20,167	20,223
Total operating income	4	603,986	661,781	603,332	661,446
Employment expenses		(106,158)	(113,957)	(106,158)	(113,957)
Advertising expenses		(42,129)	(36,538)	(42,129)	(36,538)
Depreciation and amortisation expenses		(14,497)	(16,778)	(14,497)	(16,778)
Occupancy expenses		(14,069)	(12,905)	(14,069)	(12,905)
Technology expenses		(13,215)	(10,872)	(13,215)	(10,872)
Other expenses		(21,898)	(19,720)	(21,244)	(19,385)
Total operating expenses	4	(211,966)	(210,770)	(211,312)	(210,435)
Loan loss provisions	4	3,318	(23,870)	3,318	(23,870)
Operating profit before tax		395,338	427,141	395,338	427,141
Income tax expense	6	(119,149)	(122,871)	(119,149)	(122,871)
Profit for the year		276,189	304,270	276,189	304,270

Financial Statements

Statement of Comprehensive Income for the year ended 31 December 2012

amounts in thousands of dollars	Consolidated		Bank	
	2012	2011	2012	2011
Profit for the year	276,189	304,270	276,189	304,270
Unrealised revaluations net of tax:				
Available for sale financial assets				
Gain/(loss) arising during the year	15,341	(23,467)	15,341	(23,467)
Transferred to the income statement	918	2,198	918	2,198
Net gain/(loss) on available for sale financial assets	16,259	(21,269)	16,259	(21,269)
Cash flow hedges				
Gain/(loss) arising during the year	26,252	(27,306)	26,252	(27,306)
Transferred to the income statement	-	(916)	-	(916)
Net gain/(loss) on cash flow hedges	26,252	(28,222)	26,252	(28,222)
Total amount recognised directly in equity	42,511	(49,491)	42,511	(49,491)
Total comprehensive income	318,700	254,779	318,700	254,779

Financial Statements

Balance Sheet as at 31 December 2012

		Consolidated		Bank	
amounts in thousands of dollars	Note	2012	2011	2012	2011
ASSETS					
Cash and cash equivalents	10	525,808	418,160	302,979	418,160
Available for sale financial assets	11	7,445,800	5,779,852	7,445,800	5,779,852
Loans and advances	12	41,436,700	40,588,621	41,436,700	40,588,621
Derivative assets	13	142,839	130,207	142,839	130,207
Receivables and other assets	14	231,139	380,222	231,139	380,222
Net deferred tax assets	6	58,485	84,058	58,485	84,058
Property, plant and equipment	15	23,717	25,038	23,717	25,038
Total assets		49,864,488	47,406,158	49,641,659	47,406,158
LIABILITIES					
Deposits	16	28,461,900	26,093,814	28,461,900	26,093,814
Deposits payable to other financial institutions	17	6,995,809	4,461,289	6,778,270	4,461,289
Derivative liabilities	13	194,267	192,982	191,747	192,982
Creditors and other liabilities	18	393,318	423,285	390,548	423,285
Debt issues	19	10,573,352	13,309,635	10,573,352	13,309,635
Provisions	20	11,508	10,792	11,508	10,792
Total liabilities		46,630,154	44,491,797	46,407,325	44,491,797
Net assets		3,234,334	2,914,361	3,234,334	2,914,361
EQUITY					
Contributed equity	21	1,334,000	1,334,000	1,334,000	1,334,000
Reserves	22	109,754	17,452	109,754	17,452
Retained profits	23	1,790,580	1,562,909	1,790,580	1,562,909
Total equity		3,234,334	2,914,361	3,234,334	2,914,361

Financial Statements

Statement of Changes in Equity for the year ended 31 December 2012

Consolidated

31 December 2012

amounts in thousands of dollars	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2012	1,334,000	88,266	1,562,909	(66,945)	(3,869)	2,914,361
Total comprehensive income	-	-	276,189	26,252	16,259	318,700
General reserve for credit losses	-	48,518	(48,518)	-	-	-
Share-based payment plan	-	1,273	-	-	-	1,273
As at 31 December 2012	1,334,000	138,057	1,790,580	(40,693)	12,390	3,234,334

31 December 2011

amounts in thousands of dollars	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2011	1,334,000	85,726	1,259,762	(38,723)	17,400	2,658,165
Total comprehensive income	-	-	304,270	(28,222)	(21,269)	254,779
General reserve for credit losses	-	1,123	(1,123)	-	-	-
Share-based payment plan	-	1,417	-	-	-	1,417
As at 31 December 2011	1,334,000	88,266	1,562,909	(66,945)	(3,869)	2,914,361

Bank

31 December 2012

amounts in thousands of dollars	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2012	1,334,000	88,266	1,562,909	(66,945)	(3,869)	2,914,361
Total comprehensive income	-	-	276,189	26,252	16,259	318,700
General reserve for credit losses	-	48,518	(48,518)	-	-	-
Share-based payment plan	-	1,273	-	-	-	1,273
As at 31 December 2012	1,334,000	138,057	1,790,580	(40,693)	12,390	3,234,334

31 December 2011

amounts in thousands of dollars	Issued capital	General reserve	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2011	1,334,000	85,726	1,259,762	(38,723)	17,400	2,658,165
Total comprehensive income	-	-	304,270	(28,222)	(21,269)	254,779
General reserve for credit losses	-	1,123	(1,123)	-	-	-
Share-based payment plan	-	1,417	-	-	-	1,417
As at 31 December 2011	1,334,000	88,266	1,562,909	(66,945)	(3,869)	2,914,361

Financial Statements

Cash Flow Statement for the year ended 31 December 2012

amounts in thousands of dollars	Note	Consolidated		Bank	
		2012	2011	2012	2011
Cash flows from operating activities					
Operating profit before tax		395,338	427,141	395,338	427,141
Adjustments for:					
depreciation and amortisation expenses		14,497	16,778	14,497	16,778
loan loss provisions		(3,318)	23,870	(3,318)	23,870
other		61,997	(64,212)	61,997	(64,212)
Taxes paid		(146,402)	(154,169)	(146,402)	(154,169)
Changes in:					
loans and advances		(844,781)	(162,256)	(844,781)	(162,256)
derivatives		(11,347)	(386,313)	(13,867)	(386,313)
receivables and other assets		149,083	(66,839)	149,083	(66,839)
creditors and other liabilities		5,362	48,516	2,592	48,516
deposits		2,368,086	2,809,960	2,368,086	2,809,960
Net cash flows from operating activities		1,988,535	2,492,476	1,983,245	2,492,476
Cash flows from investing activities					
Changes in:					
available for sale financial assets		(1,665,948)	1,637,652	(1,665,948)	1,637,652
Net of purchases and disposals:					
property, plant and equipment		(13,176)	(10,521)	(13,176)	(10,521)
Net cash flows from investing activities		(1,679,124)	1,627,131	(1,679,124)	1,627,131
Cash flows from financing activities					
Changes in:					
deposits payable to other financial institutions		2,534,520	(1,936,075)	2,316,981	(1,936,075)
debt issues		(2,736,283)	(1,808,254)	(2,736,283)	(1,808,254)
Net cash flows from financing activities		(201,763)	(3,744,329)	(419,302)	(3,744,329)
Net cash flows		107,648	375,278	(115,181)	375,278
Cash and cash equivalents at beginning of year		418,160	42,882	418,160	42,882
Cash and cash equivalents at end of year	10	525,808	418,160	302,979	418,160

Interest income recognised for the year included \$2.922 billion in cash received for the Group and \$2.915 billion in cash received for the Bank (2011: \$3.060 billion for the Bank and the Group). Interest expense recognised for the year included \$2.174 billion in cash paid for the Group and \$2.172 billion in cash paid for the Bank (2011: \$2.431 billion for the Bank and the Group).

Notes to the Financial Statements

1. CORPORATE INFORMATION

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

The financial report for the year ended 31 December 2012 is comprised of the Bank and its controlled entities, IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1 and IDOL Trust Series 2012-2 collectively referred to as ("the Group") and was authorised for issue in accordance with a resolution of the Directors on 28 February 2013.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The financial report is a general purpose financial report which has been prepared on a historical cost basis, except for financial instruments stated at fair value, in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS") and interpretations.

New accounting standards and interpretations

The following standard became effective in 2012 and has been reflected in the Group's financial statements:

- AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income'. This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

The following new standards, amendments to existing standards and new interpretations have been identified as applicable to the Group. They are available for early adoption at 31 December 2012, but have not been applied in preparing this financial report:

- AASB 9 'Financial Instruments'. This standard improves and simplifies the classification and measurement of financial assets. In 2010, AASB 9 'Financial Instruments' was issued, which was initially effective as of 2013. However, in July 2011, the International Accounting Standards Board tentatively decided to postpone the mandatory application of this standard to 1 January 2015. Based on our current classification of all our Financial Instruments, the implementation of Phase 1 of AASB 9 is not expected to materially change the classification and measurement of our Financial Instruments. There may however be an impact on the Bank as a result of the implementation of Phase 2 of the Standard requiring a change to provisioning methodology. Phase 2 is still not finalised and an assessment will be made closer to the effective date;
- AASB 10 'Consolidated Financial Statements'. This standard establishes a new control model that applies to all entities. It replaces standard AASB 127 'Consolidated and Separate Financial Statements'. The implementation of this standard is not expected to have any material impact on the Bank;
- AASB 13 'Fair Value Measurement'. This standard establishes a single source of guidance for determining the fair value of assets and liabilities. The standard also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **AASB 119 'Employee Benefits'**. The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans are recognized in full with actuarial gains and losses being recognised in other comprehensive income; and
- **AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'**. This amending standard amends AASB 7 'Financial Instruments: Disclosures' to require disclosure of information that will evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

Consolidation

The consolidated Financial Statements include the Financial Statements of the Bank and all entities where it is determined that there is a capacity to control the entity. Under AASB 127 'Consolidated and Separate Financial Statements', control exists when the Bank has the power, either directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2 and the newly formed IDOL Trust Series 2012-1 and IDOL Trust Series 2012-2 ("the Trusts"), which are involved in the securitisation of the Bank's assets, have been consolidated. The basis for consolidation is that the Bank has retained all residual benefits from the Trusts' activities and the residual ownership risks related to the Trusts' assets.

Foreign currencies

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet 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.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash on hand, in banks and at-call loans. These are readily convertible to known amounts of cash which are subject to insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial instruments

Financial instruments within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' are classified into one of the following categories which determines their measurement basis:

- Available for sale
- Loans and advances
- Liabilities at amortised cost
- Derivatives

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available for sale financial assets

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

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

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

Loans and advances, receivables and other assets

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

Securitisation

The Bank has sold to the Trusts the equitable rights to mortgages selected for securitisation. The Trusts are special purpose vehicles that issue securities under the securitisation programs for the purpose of liquidity management and have been consolidated into the Group.

While the Bank has transferred its contractual rights to receive the cash flows from the securitised mortgages over to the Trusts, it has retained substantially all risks and rewards of these cash flows by virtue of the ownership of residual income units. The residual income units issued by the Trusts entitle the Bank to any residual income of the Trusts after all note-holder repayments and costs of the Trusts have been met. Accordingly, the securitised mortgages do not meet the criteria for derecognition within the Bank and will continue to be included within both the accounts of the Bank and of the Group.

Repurchase and reverse purchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories as neither the risks nor rewards have been transferred away from the Group. The counterparty liability is included in deposits and deposits payable to other financial institutions, as appropriate, based upon the counterparty to the transaction.

Liabilities at amortised cost

- *Deposits and deposits payable to other financial institutions*

Deposits include term deposits and at-call deposits. Deposits payable to other financial institutions also include negotiable certificates of deposits. Deposits and deposits payable to other financial institutions are recognised initially at the fair value of the consideration received. Any difference between the amounts recognised, net of transaction costs and the redemption value is brought to account in the Income Statement over the period of these liabilities using the effective interest rate method.

- *Debt issues*

Debt issues are short and long term debt issues of the Group including redeemable preference shares and medium term notes, amongst others. There were no redeemable preference shares as at 31 December 2012.

Derivatives and hedge accounting

The Group uses derivative financial instruments such as interest rate swaps and cross currency swaps as part of its risk management activities to manage exposures to interest rate and foreign currency risks. The Group had a cross currency swap in place for IDOL Trust Series 2012-2 as at 31 December 2012.

Derivatives are recognised at fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions and valuation techniques including discounted cash flow models. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable cash flows attributable to a recognised asset or liability (cash flow hedges).

Hedge accounting is used for derivatives designated in this way provided the criteria prescribed by AASB 139 are met.

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.

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.

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.

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. Leveraged lease receivables are recorded as loans and advances which reflect the equity participation in the lease.

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

The Group did not have any finance leases in place as at 31 December 2012.

Loan loss provisions and impairment of other financial assets

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

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

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of, or delays in, repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unresolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset; and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

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

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

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

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

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

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

Recoverable amount of assets

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

Property, plant and equipment

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

Major depreciation and amortisation periods are:

Category	2012	2011
Computer software	3 years	3 years
Computer hardware	3 years	3 years
Leasehold Improvements	Term of lease	Term of lease
Personal computers	3 years	3 years

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Leasehold improvements are amortised over the term of the lease.

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

Impairment losses are recognised in the Income Statement.

Derecognition

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. In this case it derecognises the financial asset as if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement which is determined by the extent to which the Group is exposed to changes in the value of the asset.

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.

Taxation

Income tax expense comprises of current and deferred income tax expenses based on applicable tax laws.

Bank

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Income taxes relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the Income Statement.

Trusts

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other taxes

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

- 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
- receivables and payables, which are stated with the amount of GST included.

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

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

Tax consolidation

Effective 1 January 2004, the Bank and other 100% owned subsidiaries of ING Groep NV in Australia have formed a tax consolidated group. As a result, the tax consolidated group is taxed as a single entity. The tax consolidated group does not include the Trusts. The Head Entity of the tax consolidated group is ING Australia Holdings Limited and other eligible members include ING REDA Holdings Pty Limited and Jaring Pty Limited.

Members of the tax consolidated group have entered into a tax sharing deed in order to allocate income tax payable to group members. This allocation is calculated on a stand-alone taxpayer approach. The amounts receivable or payable under the tax sharing deed are due upon receipt of the funding advice from the Head Entity and reflect the timing of the Head Entity's obligation to make payments for tax liabilities to the relevant tax authorities.

Employee entitlements

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

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. In respect of long service leave, the Group's policy is to recognise a liability once an employee attains 5 years of service or more. Employee benefits are discounted where the difference between the carrying value and the present value is material. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Share-based payment transactions

The Group provides benefits to key personnel including key management personnel (notes 7 & 8) in the form of share-based payments (share options and performance units). The settlement amount is determined by reference to movements in the exercisable price of the shares of the ultimate parent company ING Groep NV and the price on the date the options are exercised.

The cost of these share-based payment transactions with employees is measured at the fair value of the equity instruments granted. The grant date is the date on which the Group and the employee agree to a share-based payment arrangement.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Contributed equity

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

Reserves

Available for sale reserve

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

Cash flow hedge reserve

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

General reserve

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

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

Income recognition

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

Fees earned from the origination of loans are taken to the Income Statement immediately and recognised as interest income. Quarterly testing is performed to demonstrate that the immediate recognition of these fees in the Income Statement is not materially different to the effective interest rate method. Credit related fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Transaction costs associated with the origination of loans are also capitalised and recognised as interest over 4.75 years (2011: 4.5 years).

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

Cash Flow Statement

The Cash Flow Statement has been drawn up in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the profit before tax is adjusted for those items in the Income Statement and changes in Balance Sheet items, which do not result in actual cash flows during the year.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise balances with central banks and amounts due from other banks.

The net cash flow shown in respect of loans and advances to customers only relates to transactions involving actual payments or receipts. The addition to loan loss provision which is deducted from loans and advances to customers in the Balance Sheet has been adjusted accordingly from the operating profit before tax and is shown separately in the Cash Flow Statement.

3. ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

SIGNIFICANT ACCOUNTING JUDGEMENTS

Recovery of deferred tax assets

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Share-based payment transactions

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

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

Long service leave provision

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

Provisions for loan losses

Provisions for loan losses are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry and geographical concentration trends. Changes in such judgements and analysis may lead to changes in the provisions for loan losses over time. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

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

Loan origination costs

The Group's current accounting policy is to defer transaction costs associated with the origination of loans and to amortise to the Income Statement over 4.75 years (2011: 4.5 years).

Income recognition

Fees earned from the origination of loans are taken to the Income Statement immediately and recognised as interest income.

Swap Valuations

The Group has changed its current revaluation method for its cash collateralised derivative portfolio to revalue based on the Overnight Index Swap ("OIS") valuation method instead of the Bank Bill Swap Rate ("BBSW"). The recent change in valuation is to be in line with ING Groep NV and any hedge ineffectiveness is taken directly to the Income Statement.

Notes to the Financial Statements

4. PROFIT FROM ORDINARY ACTIVITIES

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Operating profit before tax has been determined as follows:				
Interest Income				
Cash and cash equivalents	15,577	6,874	13,263	6,874
Available for sale financial assets	305,527	358,154	305,527	358,154
Loans and advances				
- Related parties	21,039	22,625	21,039	22,625
- Mortgage loans	2,522,733	2,778,125	2,517,353	2,777,790
Loss on non-trading derivatives ¹	(92,446)	(41,174)	(92,446)	(41,174)
Total Interest Income	2,772,430	3,124,604	2,764,736	3,124,269
Interest expense				
Deposits - other persons or corporations	1,289,979	1,285,851	1,289,979	1,285,851
Deposits payable to other financial institutions				
- Related bodies corporate	125,072	101,594	122,758	101,594
- Other persons or corporations	105,170	222,879	105,170	222,879
Debt issues				
- Related bodies corporate	54,406	71,600	54,406	71,600
- Other persons or corporations	670,718	769,564	670,718	769,564
(Gain)/loss on non-trading derivatives ¹	(64,893)	26,203	(66,899)	26,203
Other interest expense	5,439	5,355	5,439	5,355
Total Interest expense	2,186,091	2,483,046	2,181,571	2,483,046
Net interest income	586,339	641,558	583,165	641,223
Non-interest income				
Account fees	13,595	12,722	13,595	12,722
Management and service fees	237	301	237	301
Discharge fees and penalties	3,704	5,480	3,704	5,480
Gain from sale of available for sale financial assets	7,983	3,140	7,983	3,140
Loss from repurchase of debt securities	(87)	(245)	(87)	(245)
Cash flow hedge ineffectiveness	86	(83)	86	(83)
Fees and commissions	(3,635)	(2,996)	(3,635)	(2,996)
Other	(4,236)	1,904	(1,716)	1,904
Net non-interest income	17,647	20,223	20,167	20,223
Total operating income	603,986	661,781	603,332	661,446

¹ Gains and losses on non-trading derivatives have been attributed to interest income or interest expense based on the nature of the underlying items hedged.

Notes to the Financial Statements

4. PROFIT FROM ORDINARY ACTIVITIES (CONTINUED)

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Operating expenses				
Employment expenses				
Wages and salaries	90,735	99,008	90,735	99,008
Superannuation	8,082	7,773	8,082	7,773
Share-based payment plan	1,273	1,416	1,273	1,416
Workers compensation	289	420	289	420
Other employee costs	5,779	5,340 ¹	5,779	5,340 ¹
Advertising expenses	42,129	36,538	42,129	36,538
Depreciation and amortisation expenses				
Computer hardware	5,299	6,087	5,299	6,087
Computer software	7,494	8,756	7,494	8,756
Leasehold improvements	1,688	1,919	1,688	1,919
Motor vehicles	16	16	16	16
Occupancy expenses	14,069	12,905	14,069	12,905
Technology expenses	13,215	10,872	13,215	10,872
Other expenses				
Professional services	6,193	5,378	6,193	5,378
Stationery and printing	345	279	345	279
Management costs				
- Parent company	6,311	5,383	6,311	5,383
- Related entities	35	59	35	59
Telephone and communication	4,157	3,870	4,157	3,870
Other	4,857	4,751 ¹	4,203	4,416 ¹
Total operating expenses	211,966	210,770	211,312	210,435
Loan loss provisions				
Collective provisions	(23,032)	5,600	(23,032)	5,600
Specific provisions	19,714	18,270	19,714	18,270
Total loan loss provisions ²	(3,318)	23,870	(3,318)	23,870

¹ Certain reclassifications have been made in the comparative year (within operating expenses) to more accurately reflect the nature of the expenses incurred.

² For the year ended 31 December 2012 the Group recognised \$3.3 million in loan loss provision income (2011: \$23.9 million expense). The loan loss provision income for the year is primarily attributable to a \$24.6 million reduction of the collective provision in the residential mortgage portfolio offset by \$17.7 million in individual specific provisions for impaired facilities within the commercial loans portfolio and \$1.4 million in collective provisions within the commercial loans portfolio. The remaining amount is a combination of specific and collective provisions for the retail portfolio.

Notes to the Financial Statements

5. AVERAGE BALANCE AND RELATED INTEREST

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

Consolidated amounts in thousands of dollars	Average balance for 2012	Interest	Average rate for 2012	Average balance for 2011	Interest	Average rate for 2011
Interest income						
Cash and cash equivalents	412,648	15,577	3.77%	146,447	6,874	4.69%
Available for sale financial assets	6,608,559	275,856	4.17%	6,678,202	353,248	5.29%
Loans and advances	41,260,382	2,480,997	6.01%	40,639,276	2,764,482	6.80%
	48,281,589	2,772,430	5.74%	47,463,925	3,124,604	6.58%
Interest expense						
Deposits	27,151,516	1,295,418	4.77%	24,801,520	1,288,630	5.20%
Deposits payable to financial institutions	5,269,293	230,242	4.37%	5,272,761	325,174	6.17%
Debt issues	12,687,433	660,431	5.21%	14,214,613	869,242	6.12%
	45,108,242	2,186,091	4.85%	44,288,894	2,483,046	5.61%
Net average balance and related interest	3,173,347	586,339		3,175,031	641,558	

Bank amounts in thousands of dollars	Average balance for 2012	Interest	Average rate for 2012	Average balance for 2011	Interest	Average rate for 2011
Interest income						
Cash and cash equivalents	274,116	13,263	4.84%	146,447	6,874	4.69%
Available for sale financial assets	6,608,559	275,856	4.17%	6,678,202	353,248	5.29%
Loans and advances	41,260,382	2,475,617	6.00%	40,639,276	2,764,147	6.80%
	48,143,057	2,764,736	5.74%	47,463,925	3,124,269	6.58%
Interest expense						
Deposits	27,151,516	1,295,417	4.77%	24,801,520	1,288,630	5.20%
Deposits payable to financial institutions	5,407,825	227,928	4.21%	5,272,761	325,174	6.17%
Debt issues	12,687,433	658,226	5.19%	14,214,613	869,242	6.12%
	45,246,774	2,181,571	4.82%	44,288,894	2,483,046	5.61%
Net average balance and related interest	2,896,283	583,165		3,175,031	641,223	

Interest income or expense on derivative products has been attributed to the underlying hedged asset and liability.

Notes to the Financial Statements

6. INCOME TAX EXPENSE

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Income Statement				
Current income tax	111,794	137,934	111,794	137,934
Deferred income tax	7,355	(15,063)	7,355	(15,063)
Income tax expense reported in Income Statement	119,149	122,871	119,149	122,871
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	11,251	(11,702)	11,251	(11,702)
Revaluation of available for sale financial assets	6,968	(9,115)	6,968	(9,115)
Income tax expense/(credit) recognised in other comprehensive income	18,219	(20,817)	18,219	(20,817)
Reconciliation of prima facie income tax expense on accounting profit before income tax expense:				
Operating profit before tax	395,338	427,141	395,338	427,141
Prima facie income tax on operating profit at 30% (2011: 30%)	118,601	128,142	118,601	128,142
Income Tax over provided in prior years	(196)	(5,543)	(196)	(5,543)
Effects of amounts which are not deductible	744	272	744	272
Income tax expense reported in Income Statement	119,149	122,871	119,149	122,871

Notes to the Financial Statements

6. INCOME TAX EXPENSE (CONTINUED)

	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
amounts in thousands of dollars	2012	2011	2012	2011	2012	2011	2012	2011
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	21,998	22,252	(254)	623	21,998	22,252	(254)	623
Revaluation of financial instruments	911	1,366	(455)	(455)	911	1,366	(455)	(455)
Revaluation of available for sale financial assets	-	-	-	(1,084)	-	-	-	(1,084)
Revaluation of fair value hedge	2,141	3,212	(1,071)	(1,071)	2,141	3,212	(1,071)	(1,071)
Other	1,147	894	253	(1,888)	1,147	894	253	(1,888)
Total deferred tax liabilities	26,197	27,724			26,197	27,724		
Set off of tax ¹	(26,197)	(27,724)			(26,197)	(27,724)		
Net deferred tax liabilities	-	-			-	-		
Deferred tax assets								
Depreciation and amortisation expenses	3,084	2,984	(100)	(151)	3,084	2,984	(100)	(151)
Provisions for impairment	27,491	32,628	5,136	(4,709)	27,491	32,628	5,136	(4,709)
Deferred lending income	3,374	9,391	6,017	(1,998)	3,374	9,391	6,017	(1,998)
Revaluation of available for sale financial assets	1,342	8,038	(271)	813	1,342	8,038	(271)	813
Revaluation of cash flow hedge	17,520	28,797	26	(25)	17,520	28,797	26	(25)
Accrued expenses	23,750	22,116	(1,634)	(4,983)	23,750	22,116	(1,634)	(4,983)
Provisions	3,453	3,238	(215)	(415)	3,453	3,238	(215)	(415)
Other	4,668	4,590	(77)	280	4,668	4,590	(77)	280
Total deferred tax assets before set off	84,682	111,782			84,682	111,782		
Set off of tax ¹	(26,197)	(27,724)			(26,197)	(27,724)		
Net deferred tax assets	58,485	84,058			58,485	84,058		
Deferred income tax charge / (benefit)			7,355	(15,063)			7,355	(15,063)

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

Deferred tax assets will only be recognised if:

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

6. INCOME TAX EXPENSE (CONTINUED)

Tax consolidation

The Bank and other 100% owned subsidiaries of ING Groep NV in Australia have formed a tax consolidated group with effect from 1 January 2004 and are taxed as a single entity from that date. The tax consolidated group does not include the Trusts. Members of the tax consolidated group have entered into a tax sharing deed in order to allocate income tax payable to group members. This allocation is calculated on a stand-alone taxpayer approach. The amounts receivable or payable under the tax sharing deed are due upon receipt of the funding advice from the Head Entity, which is issued as soon as practicable after the end of each financial year. The Head Entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Franking account

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

Taxation of Financial Arrangements (TOFA)

The tax consolidated group adopted the new TOFA regime from 1 January 2011. The regime intends to align the tax and accounting recognition and measurement of financial arrangements and their related flows. Following adoption, deferred tax balances for existing financial arrangements are being reversed over a four year period. There is no significant impact on the deferred tax balances for the Bank.

The Trusts did not adopt the new TOFA regime, financial arrangements in the Trusts will be accounted for under the accruals or realisation method.

7. SHARE-BASED PAYMENT PLAN

Employee share option plan

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

Employee performance units plan

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

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

Share options	2012 - No	2012 - WAEP	2011 - No	2011 - WAEP
Outstanding at the beginning of the year	462,622	€12.04	502,433	€11.87
Lapsed during the year	(25,982)	€4.56	(20,760)	€13.24
Transferred during the year	35,594	€15.94	(19,051)	€6.18
Outstanding at the end of the year	472,234	€12.75	462,622	€12.04
Exercisable at the end of the year	351,861	€14.57	230,309	€18.87

Notes to the Financial Statements

7. SHARE-BASED PAYMENT PLAN (CONTINUED)

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

Performance units	2012 - No	2012 - WAGP	2011 - No	2011 - WAGP
Outstanding at the beginning of the year	220,422	€8.09	131,034	€9.29
Granted during the year	90,025	€6.58	126,460	€9.36
Lapsed during the year	-	-	(3,100)	€2.83
Vested during the year	(105,614)	€6.05	(24,205)	€21.02
Transferred during the year	86,766	€9.04	(9,767)	€10.04
Outstanding at the end of the year	291,599	€8.64	220,422	€8.09

The outstanding balances of share options as at 31 December 2012 are:

Year of Grant	Number of Options	Exercise Price
2003	5,863	€9.71
2004	14,290	€14.37
2005	43,016	€17.88
2006	38,139	€25.16
2007	44,760	€24.72
2008	105,106	€16.66
2009	101,664	€2.90
2010	119,396	€7.35
Total	472,234	€12.75

All options are granted in the ultimate parent entity, ING Groep NV 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 2012 are:

Year of Grant	Number of Performance Units	WAGP
2010	123,495	€9.56
2011	83,808	€9.36
2012	84,296	€6.58
Total	291,599	€8.64

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

The fair value of share options and performance units have been determined using a Monte Carlo simulation taking into account the terms and conditions upon which the instruments were granted. This model takes the risk free interest rate into account (ranging from 2.02% to 4.62%), as well as the expected life of the options granted (from 5 years to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 26.05), the expected volatility of the certificates of ING Group shares (25% - 84%) and the expected dividend yield (0.94% to 8.99%). The fair value of the options is recognised as an expense under employment expenses and is allocated over the vesting period of the instruments.

Share options have a weighted average contractual maturity of 7.7 years while performance units have a weighted average contractual maturity of 1.5 years. The weighted average remaining contractual life for share options outstanding is 5.2 years.

Notes to the Financial Statements

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

Specified Executives:

Glenn Lawrence Baker	Chief Financial Officer
Lisa Dominique Claes	Executive Director, Customer Delivery
Bart Frans Maarten Hellemans	Chief Risk Officer
Andrew David Henderson	Chief Information Officer
Robert Hendriks	Executive Director, Human Resources
John Philip Moore	Executive Director, Commercial Property Finance
Brett Alexander Morgan	Executive Director, Customer Proposition (until 9 November 2012)
Patricia Anne Myers	Chief Operating Officer

Specified Directors:

Brunon Cezary Bartkiewicz	Director (Non-Executive) (resigned 29 March 2012)
Michael Katz	Director (Non-Executive)
Donald Joseph Koch	Director and Chief Executive Officer (resigned 31 July 2012)
Amanda Lacaze	Director (Non-Executive)
John Masters	Director (Non-Executive)
Vaughn Nigel Richtor	Director (Non-Executive) and Chief Executive Officer from 1 August 2012
Ann Sherry AO	Director (Non-Executive)
Comelis Petrus Adrianus Joseph Leenaars	Director (Non-Executive) (appointed 29 March 2012)

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

amounts in thousands of dollars	2012	2011
Short-term employee benefits	4,418	4,413
Other long-term benefits	730	631
Share-based payments	890	961
Total compensation	6,038	6,005

Employees were not entitled to any other payments or benefits other than the ones disclosed in notes 7, 8 and 29.

9. AUDITOR'S REMUNERATION

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Amounts paid or due and payable for audit and review of the financial report by Ernst & Young	746	932	746	932
Amounts paid or due and payable for other services to Ernst & Young:				
Accounting and reporting services	-	14	-	14
Regulatory services	108	353	108	353
Taxation services	212	231	212	231
Other services	92	124	92	124
Total	1,158	1,654	1,158	1,654

Notes to the Financial Statements

10. CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Cash and liquid assets	21,843	38,008	21,843	38,008
Cash equivalents due from other financial institutions	503,965	380,152	281,136	380,152
Total cash and cash equivalents	525,808	418,160	302,979	418,160

11. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Floating rate notes	889,379	1,316,683	889,379	1,316,683
Treasury notes	229,425	-	229,425	-
Discount securities	3,395,829	1,131,206	3,395,829	1,131,206
Corporate bonds	202,541	1,000,243	202,541	1,000,243
Covered bonds	169,604	-	169,604	-
Government bonds	2,371,131	2,067,269	2,371,131	2,067,269
Mortgage backed securities	187,891	262,563	187,891	262,563
Other securities	-	1,888	-	1,888
Total available for sale financial assets	7,445,800	5,779,852	7,445,800	5,779,852
Maturity analysis of available for sale financial assets				
Not longer than 3 months	3,037,504	989,225	3,037,504	989,225
Longer than 3 months and not longer than 1 year	1,715,877	801,703	1,715,877	801,703
Longer than 1 year and not longer than 5 years	2,692,419	3,987,036	2,692,419	3,987,036
No maturity specified	-	1,888	-	1,888
Total available for sale financial assets	7,445,800	5,779,852	7,445,800	5,779,852

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

Notes to the Financial Statements

12. LOANS AND ADVANCES

amounts in thousands of dollars	Consolidated		Bank	
	2012	2011	2012	2011
Retail loans	37,784,260	37,431,511	37,784,260	37,431,511
Commercial loans	3,267,167	3,084,469	3,267,167	3,084,469
Other loans – parent entity	100,000	150,000	100,000	150,000
– other financial institutions	376,910	31,400	376,910	31,400
Gross loans and advances	41,528,337	40,697,380	41,528,337	40,697,380
Specific provision for impairment	(78,793)	(72,883)	(78,793)	(72,883)
	41,449,544	40,624,497	41,449,544	40,624,497
Collective provision for impairment	(12,844)	(35,876)	(12,844)	(35,876)
Total loans and advances	41,436,700	40,588,621	41,436,700	40,588,621
Maturity analysis of loans and advances				
Not longer than 3 months	646,673	271,423	646,673	271,423
Longer than 3 months and not longer than 1 year	328,990	416,111	328,990	416,111
Longer than 1 year and not longer than 5 years	1,973,115	1,795,430	1,973,115	1,795,430
Longer than 5 years	36,847,858	36,354,789	36,847,858	36,354,789
No maturity specified	1,731,701	1,859,627	1,731,701	1,859,627
Gross loans and advances	41,528,337	40,697,380	41,528,337	40,697,380

While retail loans and advances principally have a contractual term of 30 years, the average life of a retail loan is approximately 5 years (2011: approximately 5 years).

13. DERIVATIVES

Derivative contracts

Each derivative is classified for accounting purposes as “hedging” or as “other derivative”. Derivatives classified as hedging are derivative transactions entered into in order to manage the risks arising from non-traded assets and liabilities. The other derivative is a cross currency swap that the Group entered into during the year. The fair value of the cross currency swap at 31 December 2012 was a liability of \$2.5 million.

Derivatives transacted for hedging purposes

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

Derivatives designated and accounted for as hedging instruments

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

Fair value hedges

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

For the year ended 31 December 2012, a loss on ineffectiveness of \$3.1m (2011 –loss of \$0.4m) was taken to the Income Statement. As at 31 December 2012, the fair value of outstanding derivatives designated as fair value hedges was \$117.9 million (2011: \$122.7 million) of assets and \$108.4 million (2011: \$89.4 million) of liabilities.

Notes to the Financial Statements

13. DERIVATIVES (CONTINUED)

Cash flow hedges

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

For the year ended 31 December 2012, there has been no material gain or loss associated with ineffective portions of cash flow hedges. Gains and losses on derivative contracts designated as cash flow hedges are initially recorded in comprehensive income in the cash flow hedge reserve but are reclassified to current period earnings when the hedged cash flows occur.

As at 31 December 2012, the net fair value of outstanding derivatives designated as cash flow hedges was \$58.4 million net liabilities (2011: \$96.0 million net liabilities).

Consolidated	2012			2011		
amounts in thousands of dollars	Face value	Fair value asset	Fair value liability	Face value	Fair value asset	Fair value liability
Derivative assets and liabilities						
Hedging derivatives	22,660,186	142,839	(191,747)	34,402,635	130,207	(192,982)
Other derivative	270,000	-	(2,520)	-	-	-
Total derivative assets/(liabilities)	22,830,186	142,839	(194,267)	34,402,635	130,207	(192,982)
Derivatives designated as fair value hedges						
Interest rate swaps	5,456,610	117,918	(108,425)	7,195,210	122,650	(89,435)
Total fair value hedges	5,456,610	117,918	(108,425)	7,195,210	122,650	(89,435)
Derivatives designated as cash flow hedges						
Interest rate swaps	17,103,576	24,921	(83,322)	27,207,425	7,557	(103,547)
Total cash flow hedges	17,103,576	24,921	(83,322)	27,207,425	7,557	(103,547)
Other derivative						
Cross currency swap	270,000	-	(2,520)	-	-	-
Total other derivative	270,000	-	(2,520)	-	-	-
Total recognised derivative assets/(liabilities)	22,830,186	142,839	(194,267)	34,402,635	130,207	(192,982)

Notes to the Financial Statements

13. DERIVATIVES (CONTINUED)

Bank	2012			2011		
	amounts in thousands of dollars	Fair value asset	Fair value liability	Fair value asset	Fair value liability	
	Face value			Face value		
Derivative assets and liabilities						
Hedging derivatives	22,560,186	142,839	(191,747)	34,402,635	130,207	(192,982)
Total derivative assets/(liabilities)	22,830,186	142,839	(191,747)	34,402,635	130,207	(192,982)
Derivatives designated as fair value hedges						
Interest rate swaps	5,456,610	117,918	(108,425)	7,195,210	122,650	(89,435)
Total fair value hedges	5,456,610	117,918	(108,425)	7,195,210	122,650	(89,435)
Derivatives designated as cash flow hedges						
Interest rate swaps	17,103,576	24,921	(83,322)	27,207,425	7,557	(103,547)
Total cash flow hedges	17,103,576	24,921	(83,322)	27,207,425	7,557	(103,547)
Total recognised derivative assets/(liabilities)	22,560,186	142,839	(191,747)	34,402,635	130,207	(192,982)

Notes to the Financial Statements

13. DERIVATIVES (CONTINUED)

Cash flow hedges	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Fair value of hedge instruments	(58,401)	(95,990)	(58,401)	(95,990)
Amount recognised in comprehensive income during the period (net of tax)	26,252	(27,306)	26,252	(27,306)
Amount removed from comprehensive income and included in net profit during the period	-	916	-	916

The Group enters derivative contracts to hedge pools of underlying assets or liabilities in macro cash flow hedge relationships. At 31 December 2012 the cash flow hedge portfolios contained derivatives of varying maturities up to 5 years with the largest concentration in the range of 1 to 5 years. For the year ended 31 December 2012, the Bank recognised a \$26.3 million gain (2011: \$28.2 million loss) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity at 31 December 2012 was negative \$40.7 million (2011: negative \$66.9 million) after deferred tax. The ineffectiveness on cash flow hedges of positive \$0.1 million (2011: negative \$0.1 million) was recognised in the Income Statement.

Fair value hedges	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Fair value of hedge instruments	9,493	33,215	9,493	32,215
Current year (losses)/gains on hedging instruments	(17,722)	58,959	(17,722)	58,959
Fair value of hedged items	(1,466,040)	(2,237,829)	(1,466,040)	(2,237,829)
Current year gains/(losses) on hedged item	14,616	(59,326)	14,616	(59,326)
Hedge ineffectiveness	(3,106)	(367)	(3,106)	(367)

14. RECEIVABLES AND OTHER ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Accrued interest receivable	218,929	368,950	218,929	368,950
Sundry debtors and other assets	12,210	11,272	12,210	11,272
Total receivables and other assets	231,139	380,222	231,139	380,222

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Property, plant and equipment at cost	155,480	142,361	155,480	142,361
Accumulated depreciation and amortisation	(131,763)	(117,323)	(131,763)	(117,323)
Total property, plant and equipment	23,717	25,038	23,717	25,038
Mainframe computers & computer equipment				
Opening balance	6,812	7,348	6,812	7,348
Additions	2,349	5,035	2,349	5,035
Depreciation	(4,809)	(5,571)	(4,809)	(5,571)
Closing balance	4,352	6,812	4,352	6,812
Personal computers				
Opening balance	1,748	1,742	1,748	1,742
Additions	303	522	303	522
Depreciation	(490)	(516)	(490)	(516)
Closing balance	1,561	1,748	1,561	1,748
Computer software				
Opening balance	8,876	13,588	8,876	13,588
Additions	9,220	4,044	9,220	4,044
Depreciation	(7,494)	(8,756)	(7,494)	(8,756)
Closing balance	10,602	8,876	10,602	8,876
Leasehold Improvements				
Opening balance	7,506	8,505	7,506	8,505
Additions	1,304	920	1,304	920
Depreciation	(1,688)	(1,919)	(1,688)	(1,919)
Closing balance	7,122	7,506	7,122	7,506
Motor vehicles				
Opening balance	96	112	96	112
Depreciation	(16)	(16)	(16)	(16)
Closing balance	80	96	80	96

Depreciation costs include the impact of any impairment recognised over the course of the year.

Notes to the Financial Statements

16. DEPOSITS

amounts in thousands of dollars	Consolidated		Bank	
	2012	2011	2012	2011
Total deposits on demand and short term deposits	28,461,900	26,093,814	28,461,900	26,093,814
Maturity analysis of deposits				
At-call	16,258,358	17,106,352	16,258,358	17,106,352
Not longer than 3 months	4,775,067	4,542,723	4,775,067	4,542,723
Longer than 3 months and not longer than 1 year	7,285,370	4,540,579	7,285,370	4,540,579
Longer than 1 year and not longer than 5 years	676,347	378,279	676,347	378,279
Total undiscounted deposits on demand and short term deposits	28,995,142	26,567,933	28,995,142	26,567,933

The variance between the total deposits on demand and short term deposits and the total of the maturity analysis of total deposits payable on demand and short term deposits is the difference between the undiscounted cash flows to maturity and the carrying value, which is amortised using the effective interest rate method.

17. DEPOSITS PAYABLE TO OTHER FINANCIAL INSTITUTIONS

amounts in thousands of dollars	Consolidated		Bank	
	2012	2011	2012	2011
Certificates of deposits	1,921,578	1,465,610	1,921,578	1,465,610
Deposits				
Related bodies corporate	3,971,867	2,339,198	3,749,602	2,339,198
Other financial institutions	1,102,364	656,481	1,107,090	656,481
	5,074,231	2,995,679	4,856,692	2,995,679
Total deposits payable to other financial institutions	6,995,809	4,461,289	6,778,270	4,461,289
Maturity analysis of deposits payable				
At-call	439,006	437,456	221,467	437,456
Not longer than 3 months	3,059,712	3,094,174	3,059,712	3,094,174
Longer than 3 months and not longer than 1 year	2,154,214	788,384	2,154,214	788,384
Longer than 1 year and not longer than 5 years	1,534,270	186,977	1,534,270	186,977
Total undiscounted deposits payable to other financial institutions	7,187,202	4,506,991	6,969,663	4,506,991

The variance between the total deposits payable and the total of the maturity analysis of deposits payable is the difference between the undiscounted cash flows to maturity and the carrying value, which is amortised using the effective interest rate method.

Notes to the Financial Statements

18. CREDITORS AND OTHER LIABILITIES

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Accrued Interest payable				
Related bodies corporate	23,236	14,994	22,672	14,994
Other persons or corporations	312,568	308,937	310,362	308,937
Total accrued interest payable	335,804	323,931	333,034	323,931
Other liabilities				
Accrued expenses	28,371	31,400	28,371	31,400
Prepaid interest	2,496	2,970	2,496	2,970
Commitment fees	991	4,212	991	4,212
Income tax payable	18,237	52,850	18,237	52,850
Other	7,419	7,922	7,419	7,922
Total other liabilities	57,514	99,354	57,514	99,354
Total creditors and other liabilities	393,318	423,285	390,548	423,285

19. DEBT ISSUES

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Short term – not longer than 1 year to maturity				
Floating rate notes	1,582,900	400,000	1,582,900	400,000
Corporate bonds	1,254,295	1,360,153	1,254,295	1,360,153
Mortgage backed securities	196,980	-	196,980	-
Total short term debt issues	3,034,175	1,760,153	3,034,175	1,760,153
Long term				
Corporate bonds	2,211,519	3,462,888	2,211,519	3,462,888
Floating rate notes	2,600,000	5,151,616	2,600,000	5,151,616
Mortgage backed securities	2,727,658	1,934,978	2,727,658	1,934,978
Redeemable preference shares – related bodies corporate	-	1,000,000	-	1,000,000
Total long term debt issues	7,539,177	11,549,482	7,539,177	11,549,482
Total debt issues	10,573,352	13,309,635	10,573,352	13,309,635
Maturity analysis of debt issues				
Not longer than 3 months	1,089,077	184,674	1,089,077	184,674
Longer than 3 months and not longer than 1 year	2,616,599	2,662,048	2,616,599	2,662,048
Longer than 1 year and not longer than 5 years	8,284,726	10,404,090	8,284,726	10,404,090
Longer than 5 years	279,786	1,407,749	279,786	1,407,749
Total undiscounted debt issues	12,270,188	14,658,561	12,270,188	14,658,561

The variance between the total debt issues and the total of the maturity analysis of debt issues is the difference between the undiscounted cash flows to maturity and the carrying value, which is amortised using the effective interest rate method.

Notes to the Financial Statements

20. PROVISIONS

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Annual leave	5,429	5,661	5,429	5,661
Long service leave	6,079	5,131	6,079	5,131
Total provisions	11,508	10,792	11,508	10,792
Provisions expected to be paid in next 12 months	5,743	6,377	5,743	6,377

21. CONTRIBUTED EQUITY

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Issued and paid equity				
Ordinary voting shares	1,284,000	1,284,000	1,284,000	1,284,000
Ordinary non-voting shares	50,000	50,000	50,000	50,000
Total contributed equity	1,334,000	1,334,000	1,334,000	1,334,000

Consolidated	2012		2011	
Issued capital	# of Shares	\$ 000	# of Shares	\$ 000
Balance at beginning of financial year	1,334,000,004	1,334,000	1,334,000,004	1,334,000
Issue of shares	-	-	-	-
Balance at end of financial year	1,334,000,004	1,334,000	1,334,000,004	1,334,000

Bank	2012		2011	
Issued capital	# of Shares	\$ 000	# of Shares	\$ 000
Balance at beginning of financial year	1,334,000,004	1,334,000	1,334,000,004	1,334,000
Issue of shares	-	-	-	-
Balance at end of financial year	1,334,000,004	1,334,000	1,334,000,004	1,334,000

Notes to the Financial Statements

22. RESERVES

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Available for sale reserve				
Opening balance	(3,869)	17,400	(3,869)	17,400
Revaluation movement for the year, net of tax	15,341	(23,467)	15,341	(23,467)
Transfer of net profit on sale to net non-interest income	1,312	3,140	1,312	3,140
Tax on amount transferred to Income Statement	(394)	(942)	(394)	(942)
Total available for sale reserve	12,390	(3,869)	12,390	(3,869)
Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the Income Statement. Fair values of quoted investments in active markets are based on current bid prices (nil in 2012).				
Cash flow hedge reserve				
Opening balance	(66,945)	(38,723)	(66,945)	(38,723)
Revaluation movement for the year, net of tax	26,252	(27,306)	26,252	(27,306)
Transfer to interest income ¹	-	(1,309)	-	(1,309)
Tax on amount transferred to Income Statement	-	393	-	393
Total cash flow hedge reserve	(40,693)	(66,945)	(40,693)	(66,945)
¹ The transfer to interest income in the prior year consisted of forward-starting swaps terminated early during 2011.				
For a derivative designated as hedging a cash flow exposure arising from a recognised asset or liability, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity in the cash flow hedge reserve and reclassified into the Income Statement when the hedge item is brought to account. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Income Statement.				
General reserve				
Share-based payments				
Opening balance	5,840	4,423	5,840	4,423
Movement for the year, net of tax	1,273	1,417	1,273	1,417
Total share-based payments reserve	7,113	5,840	7,113	5,840
General reserve for credit losses				
Opening balance	82,426	81,303	82,426	81,303
Transfer from retained earnings	48,518	1,123	48,518	1,123
Total general reserve for credit losses	130,944	82,426	130,944	82,426
Total general reserve	138,057	88,266	138,057	88,266
Total reserves	109,754	17,452	109,754	17,452

23. RETAINED PROFITS

	Consolidated		Bank	
amounts in thousands of dollars	2012	2011	2012	2011
Retained profits				
Opening balance	1,562,909	1,259,762	1,562,909	1,259,762
Profit for the year	276,189	304,270	276,189	304,270
Transfer to general reserve	(48,518)	(1,123)	(48,518)	(1,123)
Closing balance	1,790,580	1,562,909	1,790,580	1,562,909

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the Income Statement. Price testing is performed to minimise the potential risks from economic losses due to materially incorrect or misused models.

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

Cash and cash equivalents

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

Accrued interest receivable

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

Available for sale investments

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

Loans and advances

The carrying value of loans and advances is net of collective and specific provisions for impairment. For variable loans the carrying amount is an approximation of fair value. For fixed rate loans the fair value is calculated by utilising discounted cash flow models, based on the contractual terms of the loans.

Derivative assets

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

Deposits

For at-call deposits, the carrying amount is an approximation of fair value as they are short term in nature or are payable on demand. For term deposits, the fair value is calculated by utilising discounted cash flow models, based on the maturity of the deposits.

Deposits payable to other financial institutions

The fair value of payables due to other financial institutions is calculated by utilising discounted cash flow models, based on the estimated future cash flows.

Debt issues

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

Notes to the Financial Statements

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative liabilities

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

Creditors and other liabilities

The carrying amount of creditors and other liabilities is an approximation of fair value.

Summary

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

Consolidated

amounts in thousands of dollars	Carrying value 2012	Fair value 2012	Carrying value 2011	Fair value 2011
Recognised Financial Assets				
Cash and cash equivalents	525,808	525,808	418,160	418,160
Available for sale financial assets	7,445,800	7,445,800	5,779,852	5,779,852
Loans and advances	41,436,700	41,553,143	40,588,621	40,766,306
Derivative assets	142,839	142,839	130,207	130,207
Accrued interest receivable	218,929	218,929	368,950	368,950
Recognised Financial Liabilities				
Deposits	28,461,900	28,542,358	26,093,814	26,142,185
Deposits payable to other financial institutions	6,995,809	7,100,030	4,461,289	4,467,464
Debt issues	10,573,352	10,716,255	13,309,635	13,582,657
Derivative liabilities	194,267	194,267	192,982	192,982
Accrued interest payable	335,804	335,804	323,931	323,931

Bank

amounts in thousands of dollars	Carrying value 2012	Fair value 2012	Carrying value 2011	Fair value 2011
Recognised Financial Assets				
Cash and cash equivalents	302,979	302,979	418,160	418,160
Available for sale financial assets	7,445,800	7,445,800	5,779,852	5,779,852
Loans and advances	41,436,700	41,553,143	40,588,621	40,766,306
Derivative assets	142,839	142,839	130,207	130,207
Accrued interest receivable	218,929	218,929	368,950	368,950
Recognised Financial Liabilities				
Deposits	28,461,900	28,542,358	26,093,814	26,142,185
Deposits payable to other financial institutions	6,778,270	6,881,641	4,461,289	4,467,464
Debt issues	10,573,352	10,716,255	13,309,635	13,582,657
Derivative liabilities	191,747	191,747	192,982	192,982
Accrued interest payable	333,034	333,034	323,931	323,931

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Methods applied in determining fair values of financial assets and liabilities

Level 1 – Reference to published price quotations in active markets

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

Level 2 – Valuation technique supported by market inputs

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

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

Level 3 – Valuation technique not supported by market inputs

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

Carrying and fair value comparison

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

Consolidated - 31 December 2012

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial instruments – assets				
Derivative assets				
Interest rate swaps	-	142,839	-	142,839
Total derivative assets	-	142,839	-	142,839
Available for sale financial assets				
Debt securities issued by Banks	-	4,582,551	-	4,582,551
Debt securities issued by Governments	-	2,675,358	-	2,675,358
Mortgage backed securities	-	-	187,891	187,891
Total available for sale financial assets	-	7,257,909	187,891	7,445,800
Total financial instruments – assets	-	7,400,748	187,891	7,588,639
Financial instruments – liabilities				
Derivative liabilities				
Interest rate swaps	-	(191,747)	-	(191,747)
Cross Currency Swaps	-	(2,520)	-	(2,520)
Total derivative liabilities	-	(194,267)	-	(194,267)
Total financial instruments – liabilities	-	(194,267)	-	(194,267)

Notes to the Financial Statements

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank - 31 December 2012

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial Instruments – assets				
Derivative assets				
Interest rate swaps	-	142,839	-	142,839
Total derivative assets	-	142,839	-	142,839
Available for sale financial assets				
Debt securities issued by Banks	-	4,582,551	-	4,582,551
Debt securities issued by Governments	-	2,675,358	-	2,675,358
Mortgage backed securities	-	-	187,891	187,891
Total available for sale financial assets	-	7,257,909	187,891	7,445,800
Total financial instruments – assets	-	7,400,748	187,891	7,588,639
Financial Instruments – liabilities				
Derivative liabilities				
Interest rate swaps	-	(191,747)	-	(191,747)
Total derivative liabilities	-	(191,747)	-	(191,747)
Total financial instruments – liabilities	-	(191,747)	-	(191,747)

Consolidated - 31 December 2011

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial Instruments – assets				
Derivative assets				
Interest rate swaps	-	130,207	-	130,207
Total derivative assets	-	130,207	-	130,207
Available for sale financial assets				
Debt securities issued by Banks	-	3,110,315	-	3,110,315
Debt securities issued by Governments	-	2,405,086	-	2,405,086
Mortgage backed securities	-	-	262,563	262,563
Other securities	1,888	-	-	1,888
Total available for sale financial assets	1,888	5,515,401	262,563	5,779,852
Total financial instruments – assets	1,888	5,645,608	262,563	5,910,059
Financial instruments – liabilities				
Derivative liabilities				
Interest rate swaps	-	(192,982)	-	(192,982)
Total derivative liabilities	-	(192,982)	-	(192,982)
Total financial instruments – liabilities	-	(192,982)	-	(192,982)

Notes to the Financial Statements

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank - 31 December 2011

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial Instruments – assets				
Derivative assets				
Interest rate swaps	-	130,207	-	130,207
Total derivative assets	-	130,207	-	130,207
Available for sale financial assets				
Debt securities issued by Banks	-	3,110,315	-	3,110,315
Debt securities issued by Governments	-	2,405,086	-	2,405,086
Mortgage backed securities	-	-	262,563	262,563
Other securities	1,888	-	-	1,888
Total available for sale financial assets	1,888	5,515,401	262,563	5,779,852
Total financial Instruments – assets	1,888	5,645,608	262,563	5,910,059
Financial Instruments – liabilities				
Derivative liabilities				
Interest rate swaps	-	(192,982)	-	(192,982)
Total derivative liabilities	-	(192,982)	-	(192,982)
Total financial Instruments – liabilities	-	(192,982)	-	(192,982)

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

The carrying value of mortgage backed securities disclosed as level 3 are reconciled as follows:

Year ended 31 December 2012

amounts in thousands of dollars							
At 1 Jan 2012	Loss recognised in Income Statement	Loss recognised in equity	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 Dec 2012
262,563	(642)	(611)	-	(2,727)	(70,692)	-	187,891

Year ended 31 December 2011

amounts in thousands of dollars							
At 1 Jan 2011	Loss recognised in Income Statement	Loss recognised in equity	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 Dec 2011
369,052	(585)	(4,508)	-	(9,255)	(92,141)	-	262,563

Notes to the Financial Statements

25. SEGMENT REPORTING

The Group has three operating segments being *Mortgages*, *Savings* (including savings from Superannuation) and *Commercial Loans*. The segments have been identified based on internal reports that are reviewed and used by the Executive Committee in assessing performance and in determining the allocation of resources. Under the current organisational structure, *Mortgages* and *Savings* are both managed with the Customer Propositions and Customer Delivery businesses.

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

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

Consolidated

Year ended 31 December 2012

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Total
Operating income	261,518	277,410	65,058	603,986
Loan loss provisioning	22,167	(253)	(18,596)	3,318
Allocated expenses	(88,706)	(116,138)	(7,122)	(211,966)
Net segment earnings	194,979	161,019	39,340	395,338
Reportable segment assets and liabilities				
Loans and advances	38,145,404	100,000	3,191,296	41,436,700
Deposits	-	28,461,900	-	28,461,900

Year ended 31 December 2011

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Total
Operating income	373,717	221,403	66,661	661,781
Loan loss provisioning	(12,138)	(316)	(11,416)	(23,870)
Allocated expenses	(94,024)	(106,894)	(9,852)	(210,770)
Net segment earnings	267,555	114,193	45,393	427,141
Reportable segment assets and liabilities				
Loans and advances	37,414,242	150,000	3,024,379	40,588,621
Deposits	-	26,093,814	-	26,093,814

Consolidated

amounts in thousands of dollars	2012	2011
Net segment earnings	395,338	427,141
Income tax expense	(119,149)	(122,871)
Profit for the year	276,189	304,270

26. RISK MANAGEMENT

Introduction

The objective of the Group's Risk Management function is to build a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning.

The following principles support this objective, and relate equally to the Group and the Bank as they have identical risk profiles:

- Products and portfolios are structured, priced, approved and managed appropriately. Internal and external rules and guidelines are complied with.
- The Group's risk profile is transparent and consistent with delegated authorities.
- Delegated authorities are consistent with the overall Group's strategy and risk appetite.
- Transparent communication to internal and external stakeholders on risk management and value creation.

Taking risk is inherent in the Group's business activities. To ensure prudent risk-taking across the organisation, the Group operates through a comprehensive risk governance framework. The Group believes this ensures the proper identification, measurement and control of risks in all levels of the organisation so that financial strength is safeguarded.

Risk governance

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

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

Board risk oversight

Ultimate control over the strategy and policy settings of the Group rests with the Board. As a subsidiary of ING Groep NV, 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 Risk Committee is responsible for overseeing the Group's assessment and management of credit risk, market risk and operational risk including insurance, legal and compliance matters. The Risk Committee has been established to ensure a holistic approach to risk management within the Group. It will ensure that the Group maintains its established policy of effective and informed risk management, reporting to the Board as necessary, and being available to meet with regulators (such as ASIC and APRA) on behalf of the Group, when requested.

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

Remuneration and Nomination Committee – the Remuneration and Nomination Committee is responsible for reviewing and making recommendations to the Board in respect of recruitment, retention, all equity-based remuneration, termination and compensation arrangements for Non-Executive Directors, CEO and all Senior Executives. It also ensures compliance with the requirements of regulatory and governance bodies.

Risk management organisation

To ensure that the risk framework is effective and clear on responsibilities, the Group adopts a 'three lines of defence' concept. This concept provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance.

Business line management has primary responsibility for the day to day management of risk and belongs to the first line of defence.

26. RISK MANAGEMENT (CONTINUED)

The Risk Management function belongs to the second line of defence and is responsible for formulating high-level policies, limits and risk appetite. The Risk Management function provides oversight, challenge and support to optimise the risk and reward trade-off.

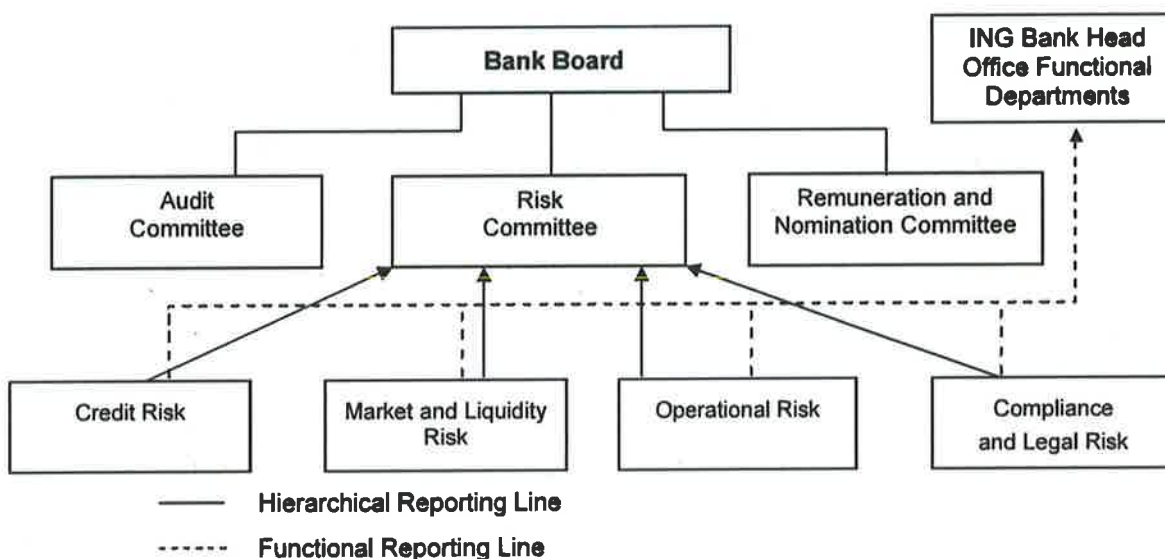
The Internal Audit function provides independent and objective assurance on the effectiveness of the overall system of internal control, including financial, operational, compliance and risk management and forms the third line of defence.

Risk Management function

The Risk Management function within the Group, as the second line of defence, is responsible for the identification, measurement, monitoring and control of the following risk categories:

- Credit risk
- Market risk
- Liquidity risk
- Non-Financial Risk (Operational, Compliance and Legal 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 function through joint representation on each committee:

- Asset and Liability Management Committee ("ALCO") – ALCO defines the policy 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 and at a minimum, meets on a monthly basis;
- Local Credit Committee ("LCC") – Advises on transactions involving the taking of credit risk and on specific and collective loan loss provisioning for the Group. The LCC is responsible for the oversight and monitoring of the credit infrastructure (incorporating systems, models, people and policies) and credit portfolios (quality and arrears) and at a minimum, meets on a monthly basis; and
- Non-Financial Risk Committee ("NFRC") – The overall responsibility of the NFRC is to oversee and monitor the Non-Financial Risk ("NFR") profile of the bank (operational, compliance and legal risks) and ensure they are managed in accordance with the Risk Management Framework. The NFRC acts as an escalation point for issues which impact the bank's NFR profile and ensures that the appropriate management action is taken. The NFRC meets at a minimum, on a monthly basis.

Other Disclosures

26. RISK MANAGEMENT (CONTINUED)

Risk policies

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

Risk measurement

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

CREDIT RISK

Credit risk is the risk of loss from default by debtors or counterparties. Credit risk arises in the Group's lending, pre-settlement and investment activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

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

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

Risk classes: Group portfolio as a percentage of total outstandings

S&P Equivalent Rating	Risk Grading	2012	2011
AAA	1	3.3	4.5
AA	2-4	25.8	6.3
A	5-7	9.4	14.7
BBB	8-10	30.4	41.1
BB	11-13	25.6	26.2
B	14-16	3.3	3.1
CCC & Problem Grade	17-20	2.2	4.1
		100.0	100.0

The distribution of asset exposures by risk grading include retail, commercial and wholesale investments. The Group maintains a portfolio of wholesale assets rated by S&P of at least an A rating. The majority of these investments are rated at least AA by S&P. The highest (internal) risk grade for retail loans is a risk grade of 3 with the majority rated between risk grades 8 and 11. The highest (internal) risk grade for commercial loans is a risk grade of 10 with the majority rated between risk grades 11 and 12.

Settlement risk

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

26. RISK MANAGEMENT (CONTINUED)

Collateral policies

As with all financial institutions and banks in particular, the Group is in the business of taking credit risk. As such, the creditworthiness of customers, trading partners and investments is continually evaluated for their ability to meet their financial obligations to the Group. During the process of creating new loans or investments as well as reviewing existing loans and investments, the Group determines the amount and type of collateral, if any, that a customer may be required to pledge to the Group. Generally, the lower the perceived credit-worthiness of a borrower or financial counterparty, the more collateral the customer or counterparty will have to provide.

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets.

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

Problem loans

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

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

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

The total residential mortgage portfolio 90 days past due as at the end of 2012 is 40 basis points of outstanding, which has decreased by 16 basis points since 2011 (56 basis points). It remains below external benchmark indices.

Other Disclosures

26. RISK MANAGEMENT (CONTINUED)

Loans by credit quality

Consolidated and Bank amounts in thousands of dollars	2012		2011	
	\$ 000	%	\$ 000	%
Neither past due nor impaired	39,427,548	94.9	37,970,557	93.3
- of which: Residential	35,961,696	86.6	34,974,713	85.9
- of which: Commercial	2,988,942	7.2	2,814,444	6.9
- of which: Financial Institution	476,910	1.1	181,400	0.5
Past due but not impaired	1,683,588	4.1	2,269,632	5.6
Impaired	417,201	1.0	457,191	1.1
	41,528,337	100.0	40,697,380	100.0

Ageing analysis (past due but not impaired)

Consolidated and Bank amounts in thousands of dollars	2012		2011	
	\$ 000	%	\$ 000	%
Less than 1 payment past due	1,331,823	79.1	1,646,984	72.6
1 payment past due	264,620	15.7	437,532	19.3
2 payments past due	87,145	5.2	185,116	8.1
	1,683,588	100.0	2,269,632	100.0

Impaired loans by economic sector

Consolidated and Bank amounts in thousands of dollars	2012		2011	
	\$ 000	%	\$ 000	%
Private individuals	164,945	39.5	225,830	49.4
Construction & commercial real estate	252,256	60.5	231,361	50.6
	417,201	100.0	457,191	100.0

Risk concentration: Group portfolio, by economic sector

Consolidated and Bank in percentages	2012		2011	
Construction & commercial real estate	6.7		6.8	
Financial institutions	10.7		7.3	
Private individuals	76.5		80.9	
Public administration	6.1		5.0	
	100.0		100.0	

Other Disclosures

26. RISK MANAGEMENT (CONTINUED)

Provision for impairment

amounts in thousands of dollars	Consolidated	
	2012	2011
Specific provisions		
Opening balance	72,883	62,788
Net movement in provision	19,714	18,270
Sub-total	92,597	81,058
Bad debts written off	(13,804)	(8,175)
Closing balance – specific provisions	78,793	72,883
Collective provisions		
Opening balance	35,876	30,276
Net movement in provision	(23,032)	5,600
Closing balance – collective provisions	12,844	35,876
Total provision for impairment	91,637	108,759

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

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

Exposure not mitigated by collateral by asset class

in percentages	2012	2011
Residential Loans	0.03	0.03
Commercial Loans	1.23	2.34

Maximum credit risk exposure

amounts in thousands of dollars	Consolidated	
	2012	2011
Financial assets		
Cash and cash equivalents	525,808	418,160
Accrued interest receivable	218,929	368,950
Available for sale financial assets	7,445,800	5,779,852
Loans and advances	41,436,700	40,588,621
Derivative assets	142,839	130,207
Total	49,770,076	47,285,790
Off-Balance Sheet		
Undrawn loan commitments and bank accepted guarantees	5,434,884	5,338,771
Total maximum credit risk exposure	55,204,960	52,624,561

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

26. RISK MANAGEMENT (CONTINUED)

MARKET RISK

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

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

- Interest rate risk; and
- Foreign exchange risk.

Interest rate risk in the banking book

Broadly defined, interest rate risk is the risk of, or potential for, a change in income or economic value of the Group as a result of movements in market interest rates.

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

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

- *Trading risk* – the risk that arises from dealing in interest rate instruments with the express purpose of generating income from their purchase and sale. Trading will typically involve multiple purchases and sales over a short time frame. Trading activities will normally be accounted for on a mark-to-market basis. *The Group does not trade and therefore this risk is not present within the Group;*
- *Model risk* – the business activities of the Group give rise to assets and liabilities, both on and off-Balance Sheet. Most of these assets and liabilities have a contractual re-pricing profile, however, for certain assets and liabilities, the re-pricing profile may need to be determined through modelling and analysis (for example, non-maturity deposits, capital, non-performing loans and embedded interest rate options). The Group actively manages the potential model risk through a regular review process and frequent analysis; and
- *Mismatch risk* – the contractual (or modelled) repricing profile of the Group's interest rate sensitive assets and liabilities gives rise to a net mismatch. One of the objectives of ALCO is to monitor, manage and minimise the net mismatch position of the Group. When the repricing profiles of all assets and liabilities are perfectly matched, the Group has no net exposure to movements in market interest rates. A perfect match of all interest rate sensitive assets and liabilities is nearly impossible. Therefore a residual mismatch position is managed and capital is allocated for the mismatched position.

Managing and monitoring interest rate risk

The type and level of mismatch interest rate risk of the Group is managed and monitored from two perspectives, being an economic value perspective and an earnings perspective. The most important of these measures are Economic Value Sensitivity ("EVS") and Earnings at Risk ("EaR").

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

The EaR perspective considers how changes in interest rates will affect the Group's reported earnings through the potential loss of earnings due to the current and forecast mismatch interest rate positions.

Other Disclosures

26. RISK MANAGEMENT (CONTINUED)

Interest rate risk analysis

amounts in thousands of dollars	2012	2011
EVS		
99 th percentile portfolio economic value change plus basis and optionality risk	(162,711)	(161,102)
	Limit +/- 225,000	Limit +/- 200,000
EaR		
- 100bps Shock (Year 1)	(3.4%)	(7.2%)
+ 100bps Shock(Year1)	3.3%	7.1%
Limit >= -20% of net interest income base case		

Assumptions underlying EVS and EaR

The methodology to determine EVS is based on the requirements in the APRA Prudential Standard (APS 117 'Capital Adequacy: Interest Rate Risk in the Banking Book') for interest rate risk in the banking book. This method is based on a distribution of portfolio economic values utilising 6 years of interest rate history and a 1 year holding period. The 99th percentile portfolio economic value is then compared to the current portfolio economic value using the actual rates at 31 December 2012.

The major assumptions that relate to the EaR measures for 31 December 2012 are:

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

Other key assumptions used to measure EaR are:

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

Foreign exchange risk

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

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

26. RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquidity risk is the risk that the Group cannot meet its financial liabilities or take advantage of investment opportunities at a 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 also to provide early warning signals of potential adverse developments, so that preventative steps may be triggered.

The liquidity strategy of the Group has four primary components:

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

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

The Group has continued to experience consistent access across the wholesale funding markets over the past year. Response to the Group's debt issuance continued to be strong. At 31 December 2012, approximately 69% of the Group's funding was provided by retail sources (2011: 64%) and 31% was provided by wholesale and other sources (2011: 36%).

At the end of 2011 following the release of the new rules text on liquidity risk management ("Basel III") by the Basel Committee on Banking Supervision ("Basel Committee") APRA released a draft prudential standard on liquidity (APS 210) as part of the coordinated global response to the Global Financial Crisis. In future, APRA will require banks to hold a buffer of liquid assets. The current internal policy requires the group to maintain a buffer of marketable liquid assets throughout the year. The level of liquid assets was \$8.0 billion at 31 December 2012 (2011: \$6.2 billion).

In addition to liquid assets the APRA (APS210) rules also focus on banks obtaining a prudent amount of long-term ("stable") funding. The Group has incorporated that view in its liquidity framework through its Core Funding Ratio ("CFR"). The CFR is the ratio of available stable funding over required stable funding. At the end of 2012 it stands at 128% (2011: 137%) against a policy requirement of 100%.

In management's opinion, liquidity is sufficient to meet our present and expected requirements.

26. RISK MANAGEMENT (CONTINUED)

OPERATIONAL RISK

Operational risk is the risk of loss resulting from failed or inadequate processes, people or systems or from external events. Key areas of operational risk for the Group include fraud risk, information security risk, compliance risk and process breakdown. The Group has implemented a framework that facilitates the identification, assessment, measurement and control of operational risk across the business.

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

The aim of the Operational Risk Management ("ORM") department is to support management of the business lines (first line of defence) which is responsible for managing the Group's operational risks. This is done by raising operational risk awareness and insight, increasing operational risk and loss transparency, improving early warning information and allocating risk ownership and responsibilities. This contributes to more stable business processes and lower operational risk costs.

Management

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

Risk management process	Examples of risk management tools
Governance	Established governance committees Clear roles and responsibilities
Objective setting	Defined policy Appetite aligned with strategic objectives
Event identification	Incident reporting and analysis External loss data consideration
Risk assessment	Risk and control self assessments Scenario analysis Business environment assessment
Risk response	Risk reduction, avoidance, transfer or acceptance Capital for operational risk
Control activities	Generic and specific controls
Information and communication	Risk awareness programs Risk reporting Operational risk dashboard
Risk monitoring	Action tracking Key risk indicator reporting Key control testing

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

26. RISK MANAGEMENT (CONTINUED)

COMPLIANCE RISK

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

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

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

CRM Framework

The CRM framework consists of two key components:

- The CRM process

The process has five key activities carried out in accordance with the requirements of the framework:

- A. Identification of compliance risk obligations;
- B. Risk assessment ;
- C. Compliance risk mitigation (includes training and education);
- D. Compliance risk monitoring (includes action tracking); and
- E. Compliance risk reporting (includes internal events reporting and response).

- Advisory

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

27. CAPITAL MANAGEMENT

The Bank is an Authorised Deposit-taking Institution and is subject to regulation by APRA under the authority of the Banking Act 1959. From 1 January 2008, APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel II Accord issued by the Basel Committee. ING Direct has been in compliance with the capital requirements imposed by APRA throughout the year. These requirements define what is acceptable as capital and provide for standard methods of measuring the risks incurred by the Group. APRA has set minimum ratios that compare the regulatory capital with risk weighted on and off-Balance Sheet assets for credit and operational risks as well as mandating a charge for other risks that may or may not be easily measured.

The Bank is also compliant with prudential capital ratios and capital buffers stipulated under Basel III, which are effective from 1 January 2013. The Bank chooses to hold capital in addition to prudential minimum levels by maintaining capital buffers that are sufficient to absorb losses and increased regulatory capital under extreme but plausible stress scenarios.

Regulatory capital is divided into Tier One and Tier Two capital. Certain deductions are made from the sum of Tier One and Tier Two capital to arrive at the Capital Base. Tier One capital primarily consists of shareholders' equity plus retained earnings, less capitalised expenses and the general reserve for credit losses. Tier Two capital primarily consists of redeemable preference shares (nil in 2012) and the general reserve for credit losses which incorporates the collective provision for impairment losses.

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

Active capital management

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

- Risk profile and the volume of risk weighted assets;
- The extent of the mismatch between the asset and liability duration;
- The expected change in interest rates in the near term; and
- The changes in investment strategy.

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

Credit risk capital

In accordance with APRA's methodology, measuring credit risk requires one of a number of risk weights to be applied to each asset on the Balance Sheet and to off-Balance Sheet obligations. The risk weights are applied based on APRA's Basel II Standardised Approach. In addition to the Standardised Approach, the Bank also calculates the risk weighted assets based on the Basel II Advanced Approach under a parallel run regime for local purposes and for consolidated results at Group level.

Operational risk capital

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

Market risk capital

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

27. CAPITAL MANAGEMENT (CONTINUED)

Forecasting regulatory capital requirements

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

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

Surplus capital

Periodic scenario based stress tests allow the Bank to assess capital adequacy under plausible but severe stressed conditions impacting the Balance Sheet across all risk types.

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

Other Disclosures

27. CAPITAL MANAGEMENT (CONTINUED)

Key Capital Indicators

		Consolidated	
amounts in thousands of dollars		2012	2011
Qualifying capital			
Tier 1			
Total equity		3,234,334	2,914,361
Adjust for:			
Available for sale reserve		(12,390)	3,869
Cash flow hedge reserve		40,693	66,945
General reserve		(138,057)	(82,266)
Total adjustments		(109,754)	(11,452)
Deductions		(140,641)	(177,181)
Total tier 1 qualifying capital		2,983,939	2,725,728
Tier 2			
General reserve for credit losses and collective provisioning		139,935	107,539
Available for sale reserve (45% of pre-tax amount)		7,964	-
Redeemable preference shares		-	1,000,000
Total tier 2 qualifying capital		147,899	1,107,539
Total qualifying capital		3,131,838	3,833,267
Total risk adjusted assets and off-Balance Sheet exposures		24,784,328	24,175,984
Risk Weighted Capital Ratio		12.6%	15.9%

28. ULTIMATE HOLDING ENTITY

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

29. RELATED PARTY DISCLOSURES

Loans to entities in the wholly owned group

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

		Bank	
amounts in thousands of dollars		2012	2011
Aggregate amounts receivable from the ultimate controlling entity		101,152	151,616
Aggregate amounts receivable from related parties in the wholly owned group		347,193	395
Total		448,345	152,011

Other Disclosures

29. RELATED PARTY DISCLOSURES (CONTINUED)

Loans from entities in the wholly owned group

Aggregate amounts payable comprise subordinated debt, redeemable preference shares (nil in 2012), certificates of deposit, accrued interest and inter-company balances. Interest was charged on subordinated debt and certificates of deposits on normal commercial terms throughout the year. No security or guarantee has been provided and no bad and doubtful debt provisions were raised during the year.

	Bank	
amounts in thousands of dollars	2012	2011
Aggregate amounts payable to the ultimate controlling entity	576	1,008,105
Aggregate amounts payable to related parties in the wholly owned group	3,730,299	2,209,825
Total	3,730,875	3,217,930

Other transactions with entities in the wholly owned group

The Bank paid fees for expenses incurred for services rendered on behalf of entities in the wholly owned Group.

	Bank	
amounts in thousands of dollars	2012	2011
Amounts paid or payable to the ultimate controlling entity	6,155	5,383
Amounts paid or payable to related bodies	35	59
Total	6,190	5,442

Transactions with the controlled entities

Aggregate amounts receivable comprise of at-call loans, residential mortgage backed securities and accrued interest. Interest received was charged on normal commercial terms throughout the year. No security or guarantee has been provided and no bad and doubtful debt provisions were raised during the year.

	Bank	
amounts in thousands of dollars	2012	2011
Aggregate amounts receivable from the controlled entities	2,818	2,483

Loans to key management personnel and related entities

Loans have been provided to key management personnel and these loans were conducted in the normal course of business and on terms applicable to the Group's personnel.

Other transactions with key management personnel and related entities

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

Key management personnel remuneration is disclosed in Note 8.

Other Disclosures

30. CONTINGENT ASSETS AND LIABILITIES

Bank

amounts in thousands of dollars	2012	2012	2011	2011
	Unused	Available	Unused	Available
Standby facilities to related entities	332,900	332,900	317,887	317,887

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

- IDS Trust 2008-1: \$286.9 million (2011: \$286.9 million);
- IDOL Trust series 2010-1: \$6.6 million (2011: \$8.8 million);
- IDOL Trust series 2011-1: \$9.5 million (2011: \$12.8 million);
- IDOL Trust series 2011-2: \$7.2 million (2011: \$9.4 million);
- IDOL Trust series 2012-1: \$9.2 million (2011: nil);
- IDOL Trust series 2012-2: \$13.5 million (2011: nil).

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

31. COMMITMENTS

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

amounts in thousands of dollars	Consolidated	
	2012	2011
Commitments to extend credit		
- irrevocable commitments to extend credit	5,411,003	5,311,455
- bank accepted guarantees	23,881	27,316
Total commitments to extend credit	5,434,884	5,338,771
Operating Leases – Land & Buildings *		
Lease payments due:		
- not later than 1 year	10,607	9,900
- later than 1 year and less than 5 years	35,942	41,528
- later than 5 years	-	4,801
Total minimum lease payments	46,549	56,229

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

32. SUBSEQUENT EVENTS

No subsequent events or transactions have occurred since the year ended 31 December 2012 or are pending that would have a material effect on the Financial Statements.

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- a) The Financial Statements and notes of the Company and consolidated entities are in accordance with the Corporations Act 2001, including;
 - i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - ii) complying with Accounting Standards and Corporations Regulations 2001; and
- b) The Financial Statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
- c) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Michael Katz
Chairman



Vaughn Richter
Director

Sydney
28 February 2013

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

Report on the financial report

We have audited the accompanying financial report of ING Bank (Australia) Limited, which comprises the balance sheet as at 31 December 2012, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

- a. the financial report of ING Bank (Australia) Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2012 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

A stylized, handwritten signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of Steve Ferguson.

Steve Ferguson
Partner
Sydney
28 February 2013