ING DIRECT

Annual Report 2010

ING Bank (Australia) Limited
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CEO'S YEAR IN REVIEW

In 2010, the Australian economy demonstrated its resilience despite ongoing global economic uncertainty. However, consumer and market confidence remains fragile after the pull back of monetary and fiscal stimuli.

ING Bank (Australia) Limited ("the Bank") has performed strongly in 2010, maintaining its position as Australia's 5th largest retail bank in household savings and mortgages. The Bank generated a net profit after tax of $275.9 million for the year, a record profit for the Bank and a steady increase of 5% from our 2009 result of $263.7 million.

Our profile as a challenger brand and its appeal with customers continued to grow with our "fee free" *Orange Everyday* ("OE") account. Over 100,000 new customers joined the Bank in 2010. We also successfully launched a new brand platform which will help us to further connect with customers. Our entry into the mortgage securitisation market was well received by investors and further diversified our funding sources.

Globally, 2010 has seen significant changes for ING Group. As part of a restructuring plan to satisfy the European Commission, the operational separation of ING's Banking and Insurance and Investment Management arms continues apace. These changes have not impacted, and are not expected to impact, the Bank in any material way.

Savings

Our savings portfolio has delivered a strong performance in a highly competitive savings market, with 2010 net portfolio growth of $2.1 billion. As at 31 December 2010, our total savings portfolio was $23.3 billion, an annual increase of 10%.

We have also delivered an exciting new product initiative in 2010, offering term deposits to a range of new middle market clients. This initiative has been highly successful and has driven a substantial uptake in deposits since its launch in March.

Residential Mortgages

The Bank targeted a reduced rate of growth in residential mortgages in 2010, with the aim of increasing the proportion of loans funded from retail deposits.

The Bank's retail mortgage portfolio increased $1.1 billion in 2010, compared to $1.2 billion growth in the previous year. As at 31 December 2010, our total residential mortgage portfolio was $36.7 billion, representing a year on year increase of 3%.

Our portfolio continued to demonstrate strong credit quality in 2010, with arrears and default levels performing in line with industry benchmarks. Consequently, balance sheet provisions for this portfolio have increased by $5 million to $41.9 million, reflecting a conservative view of the market.

The Bank is committed to a prudent approach to the residential mortgage market whilst remaining a significant competitor. We continue to invest in our residential mortgage capabilities with a view to ensuring long term success. The Bank launched *Orange Advantage* ("OA"), a new mortgage offset account in 2009 which has already seen net growth of over $300 million in 2010. Furthermore, the continued emphasis on our Direct mortgage channel helped achieve a significant milestone during 2010, reaching $2 billion and comprising more than 5% of the total residential mortgage portfolio.

Commercial Loans

In line with ING's global strategy, the Bank has pursued a conservative strategy for the commercial loans portfolio in 2010. In 2010, Commercial Property Finance ("CPF") decreased its portfolio by $345 million to $2.5 billion. The overall commercial loans portfolio was $3.3 billion as at 31 December 2010.

In the face of a subdued commercial property environment, provisioning within the CPF portfolio increased to $51.1 million as at 31 December 2010. This is a net increase of $7.3 million during the year and reflects the cautious outlook on the market. CPF had specific write-offs totaling $8.3 million which were all fully provided for. The overall portfolio continues to perform strongly.

Funding & Liquidity

Over the course of 2010, the Bank has undertaken several initiatives to enhance its funding and liquidity profile. Apart from accelerating growth in our savings portfolio, the Bank became an active issuer of Residential Mortgage Backed Securities ("RMBS") issuing $900 million during the year. Majority of these notes were purchased by external investors following strong market demand. We also issued $3 billion of Government guaranteed term debt in the first quarter of the year.

The combined effect of reducing short term wholesale funding and the issuance of RMBS as well as other term debt has enabled us to increase the relative proportion of long term funding, lengthen the average tenor, as well as maintain high levels of on-balance sheet liquidity. At year end, conditions in wholesale funding markets were better than at the start of the year but still remained susceptible to offshore concerns. However, the Bank's key funding and liquidity ratios are all strong, our balance sheet structure is sound and we are well positioned to fit within the Basel III requirements as they come into force.

Capital

The Bank's total regulatory capital ratio improved from 13.0% at the end of 2009 to 14.3% at the end of 2010. This was partially due to de-risking our Balance Sheet during the year combined with a healthy net profit. The ratio represents a very conservative level of capitalisation, which is adequate to support all current growth plans over the medium term.

Our program to achieve Basel II Advanced status continues apace and included active and ongoing engagement with the regulator during 2010. The Bank is working towards completing accreditation for the credit, market and operational risk components before the end of 2011.

Our People

The energy, commitment and talent of our employees remained our key competitive advantage during 2010. Our ability to deliver outstanding customer service, great product value and reduced costs, as well as to win industry awards is a direct result of their hard work and dedication. 2010 was a challenging and rewarding year for ING DIRECT, including the continued focus on Basel II Advanced Accreditation, launch of middle markets deposit raising and conclusion of a new Enterprise Agreement. Our people remained highly engaged and inspired throughout the year. I thank them for their outstanding performance.

Our Customers

Our customer service standards continue to lead the industry. We have achieved the highest ranking for *Customer Advocacy* (a measure of the proportion of customers likely to recommend the Bank) and one of the highest for *Net Promoter Score* (a net measure of the proportion of customers likely to recommend their Bank) of all financial institutions in Australia in 2010. The Bank has maintained its solid customer base of over 1.4 million.

Cost Management

The Bank has continued its active focus on efficiency and low cost delivery in 2010 whilst investing for the future. We continue to have a low cost to income ratio of 34%, well within our local and global goals for 2010. This result highlights the continuing effectiveness of our low cost model relative to our competitors, efficiency gains achieved and investments throughout the year.

Awards

The Bank received a number of awards through 2010 recognising:

Our Service

- Australia's Most Trusted Banking Brand
  Reader's Digest
- Best Bank
  Mozo People's Choice Award
- Direct Institution of the Year 2010
  AFR Smart Investor Blue Ribbons Awards 2010

Our Products

- Best Innovative Product: OE
  Money Magazine
- Best Value Basic Variable Loan
  Your Mortgage, Editor's Choice
- 5 Star Rating for Outstanding Value: Savings Maximiser *CANSTAR CANNEX*

In the Community

ING DIRECT developed stronger community links by contributing through staff fundraising, employee volunteer time and monetary support to the ING Foundation, its charity partners, and other community groups.

Over 300 ING DIRECT employees volunteered approximately 2,170 hours of their time through individual, team and skilled volunteering in the community in 2010. Staff fundraising and financial grants also supported children in need through donations to a range of charities including *The Spastic Centre, Barnardos* and *UNICEF*.

Environment

In 2010, the Bank continued to sponsor the *World Wildlife Fund's* ("WWF") research into the rare and endangered Snubfin Dolphin. This enabled the continuation of data collection around the Great Barrier Reef with the aim of determining the endangered status of Australia's only endemic dolphin, affectionately know as 'Snubby'. After 3 years of sponsorship, including the support of customers through switching to online statements, ING DIRECT looks forward to WWF's final report and recommendation in 2011.

Outlook

ING DIRECT is well positioned for strong performance in 2011 and into the future. The Bank's 2010 profit result is the highest in its history, and the success of the OE product combined with our compelling savings and mortgage products has reinforced ING DIRECT's position as the real alternative to the "Big 4" banks in Australia.

Our strategic priorities will continue to align with our 5 year strategy, developed in 2010, including the need to:

- Build deeper and wider customer relationships
- Deliver innovative service to customers
- Drive higher customer acquisition
- Continually optimise our low-cost model
- Build a more sustainable funding and capital base

For 2011, we aim to continue growing above market in our savings portfolio, conservatively increasing net growth in residential mortgages and maintaining a steady state in our CPF portfolio. We will continue the task of strengthening our Balance Sheet through improvements in our funding profile and structural liquidity and working towards achieving industry best practice in risk and capital management. Most importantly, in 2011 we aim to remain the industry leader in customer satisfaction, as well as being one of Australia's best places to work.

While the impact from the recent floods in Queensland has been extensive, we expect a minimal impact on the Bank's residential mortgage and commercial loan portfolio. In addition, the Bank has offered some relief to those affected through monetary support, instant access to term deposit savings and a number of measures to assist mortgage customers who require financial assistance.

Our strategy for the long term focuses on achieving our vision to become *"Australians' favourite place for money"* and to deliver sustainable profit growth. 2011 and beyond looks to be presenting challenges and exciting opportunities. I look forward to capitalising on the opportunities and leading the Bank towards achieving our long term strategy.

Don Koch

Chief Executive Officer,
ING DIRECT Australia

The Directors of ING Bank (Australia) Limited submit their report, together with the financial report of the Bank and its controlled entities, IDS Trust 2008-1 and IDOL Trust Series 2010-1, for the year ended 31 December 2010.

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

Phillip Robert Shirriff, BA, FCPA, FCIS, FCIM, AAII, AICD, Chairman

Mr Shirriff was appointed Director of the Bank in July 1985 and Chairman in May 2004. Mr Shirriff is a member of the Audit and Risk Committees and Chairman of the Remuneration and Nomination Committee.

Donald Joseph Koch, Masters in Banking and Finance, Chief Executive Officer

Mr Koch was appointed Director and Chief Executive Officer in June 2009. Mr Koch is a member of the Risk Committee.

Irene Yun Lien Lee, BA, Barrister-at-Law

Ms Lee was appointed Director in December 2005. Ms Lee is a member of the Audit Committee and Chair of the Risk Committee.

Hugh Douglas Harley, LLB (Hons), BEc (Hons), M.Phil, SF (Fin)

Mr Harley was a member of the Risk Committee and Chairman of the Audit Committee until his resignation as Director on 26 February 2010.

Simonis Maria Hubertus Tellings

Mr Tellings was a member of the Audit, Risk and Remuneration and Nomination Committees until his resignation as Director on 1 October 2010.

Michael Katz, BComm (Hons)

Mr Katz was appointed Director on 1 January 2010. Mr Katz is a member of the Audit, Risk and Remuneration and Nomination Committees.

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

Mr Masters was appointed Director on 1 January 2010. Mr Masters is a member of the Risk Committee and Chairman of the Audit Committee.

Vaughn Nigel Richtor, BA (Hons)

Mr Richtor was appointed Director on 5 February 2010. Mr Richtor is a member of the Audit and Risk Committees.

Brunon Cezary Bartkiewicz, MEc

Mr Bartkiewicz was appointed Director on 1 October 2010. Mr Bartkiewicz is a member of the Audit, Risk and Remuneration and Nomination Committees.

MEETINGS OF DIRECTORS

Director (eligible to attend)	Number held	Number attended
P Shirriff	8	8
D Koch	8	8
I Lee	8	6
H Harley	1	1
S Tellings	6	4
M Katz	8	8
J Masters	8	8
V Richtor	8	6
B Bartkiewicz	2	2

COMMITTEE MEETINGS

Director (eligible to attend)	Audit Committee		Risk Committee		R&N Committee	
	Held	Attended	Held	Attended	Held	Attended
P Shirriff	6	6	6	6	4	4
D Koch	0	0	6	6	0	0
I Lee	6	4	6	4	0	0
H Harley	1	1	1	1	0	0
S Tellings	4	3	4	3	3	3
M Katz	6	6	6	6	4	4
J Masters	6	6	6	6	0	0
V Richtor	6	5	6	5	0	0
B Bartkiewicz	2	2	2	2	1	1

* R&N - Remuneration and Nomination Committee

COMPANY SECRETARY

Matthew Wade Sinnamon, LLB, B.Bus, ICSA, Solicitor

Mr Sinnamon was appointed Company Secretary and Head of Legal & Compliance in December 2007. Mr Sinnamon attends the meetings of the Board and its Committees.

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*, 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 954 permanent employees as at 31 December 2010 (2009: 917 permanent employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity at 31 December 2010 was $2,658 million (2009: $2,356 million). The movement was due to increased profits for the year plus the movement in Balance Sheet reserves.

During the year, the Bank continued to hold notes issued by the IDS Trust 2008-1, which is a special purpose entity consolidated by the Bank. The newly formed IDOL Trust Series 2010-1 was established in October 2010 and facilitated the first deal by the Bank to issue notes to external investors. Both Trusts are 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 2010, or on the results and cash flows of the Bank for the year ended on that date.

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 Articles 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 DECLARATION OF INDEPENDENCE

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

Signed in accordance with a resolution of the Directors.

Phillip R Shirriff
Chairman

Donald J Koch
Director

Sydney
25 February 2011

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

In relation to our audit of the financial report of ING Bank (Australia) Limited for the financial year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Steve Ferguson
Partner
Sydney
25 February 2011

BOARD RESPONSIBILITIES

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

Composition of the Board

The Board comprises six Non-Executive Directors (two of whom are representatives 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.

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 an Operational Risk Committee. 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, for example. All business unit level Committees are run by appropriate Senior Executives of the Bank.

Audit Committee

This Committee, chaired by 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. This 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, this 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 I Y L Lee, 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 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.

The Remuneration and Nomination Committee is chaired by P R Shirriff.

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.

Income Statement for the year ended 31 December 2010

		Consolidated		Bank	
amounts in thousands of dollars	Note	2010	2009	2010	2009
Interest income		**2,897,289**	2,605,925	**2,897,080**	2,605,733
Interest expense[1]		**(2,287,648)**	(1,972,427)	**(2,287,648)**	(1,972,427)
Net interest income	5	**609,641**	633,498	**609,432**	633,306
Net non-interest income[1]		**16,674**	15,805	**16,674**	15,805
Total operating income	4	**626,315**	649,303	**626,106**	649,111
Employment expenses		**(104,736)**	(98,842)	**(104,736)**	(98,842)
Advertising expenses		**(37,981)**	(39,093)	**(37,981)**	(39,093)
Depreciation and amortisation expenses		**(18,858)**	(16,955)	**(18,858)**	(16,955)
Occupancy expenses		**(13,378)**	(11,952)	**(13,378)**	(11,952)
Technology expenses		**(11,922)**	(9,312)	**(11,922)**	(9,312)
Other expenses[1]		**(21,177)**	(22,013)	**(20,968)**	(21,821)
Total operating expenses	4	**(208,052)**	(198,167)	**(207,843)**	(197,975)
Loan loss provisions	4	**(29,173)**	(76,274)	**(29,173)**	(76,274)
Operating profit before tax		**389,090**	374,862	**389,090**	374,862
Income tax expense[2]	6	**(113,225)**	(111,158)	**(113,225)**	(111,059)
Profit for the year		**275,865**	263,704	**275,865**	263,803

[1] In the current year we have revised our presentation and reclassified other interest expense and fees and commissions previously disclosed under "other expenses" to "interest expense" and "net non-interest income" respectively. To improve presentation we have revised comparative periods. Refer to Note 4 for more details.

[2] The difference in income tax expense between the Bank and Consolidated in 2009 was due to a one-off expense paid by the Bank on behalf of the IDS Trust 2008-1 that was treated as a permanent difference in 2008. A deferred tax asset was recognised on reinstatement of this expense by the Bank in 2009. Tax expense is not expected to be different between the two presentations in future periods.

Statement of Comprehensive Income for the year ended 31 December 2010

	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Profit for the year	**275,865**	263,704	**275,865**	263,803
Unrealised revaluations net of tax:				
Available for sale financial assets	**2,746**	25,484	**2,746**	25,484
Cash flow hedges	**22,347**	127,766	**22,347**	127,766
Total amount recognised directly in equity	**25,093**	153,250	**25,093**	153,250
Total comprehensive income	**300,958**	416,954	**300,958**	417,053

Balance Sheet as at 31 December 2010

		Consolidated		Bank	
amounts in thousands of dollars	Note	2010	2009	2010	2009
ASSETS					
Cash and cash equivalents	10	**42,882**	661,479	**42,882**	661,479
Available for sale financial assets	11	**7,417,504**	7,123,035	**7,417,504**	7,123,035
Loans and advances	12	**40,450,234**	39,307,885	**40,450,234**	39,307,885
Derivative assets	13	**49,661**	58,648	**49,661**	58,648
Receivables and other assets	14	**313,383**	163,104	**313,383**	163,104
Deferred tax assets	6	**48,178**	39,942	**48,178**	39,942
Property, plant and equipment	15	**31,295**	43,104	**31,295**	43,104
Total assets		**48,353,137**	47,397,197	**48,353,137**	47,397,197
LIABILITIES					
Deposits	16	**23,283,854**	21,221,810	**23,283,854**	21,221,810
Deposits payable to other financial institutions	17	**6,397,364**	9,070,008	**6,397,364**	9,070,008
Derivative liabilities	13	**498,749**	261,331	**498,749**	261,331
Creditors and other liabilities	18	**387,705**	387,748	**387,705**	387,748
Debt issues	19	**15,117,889**	14,091,464	**15,117,889**	14,091,464
Provisions	20	**9,411**	8,597	**9,411**	8,597
Total liabilities		**45,694,972**	45,040,958	**45,694,972**	45,040,958
Net assets		**2,658,165**	2,356,239	**2,658,165**	2,356,239
EQUITY					
Contributed equity	21	**1,334,000**	1,334,000	**1,334,000**	1,334,000
Reserves	22	**64,403**	40,528	**64,403**	40,528
Retained profits	23	**1,259,762**	981,711	**1,259,762**	981,711
Total equity		**2,658,165**	2,356,239	**2,658,165**	2,356,239

Statement of Changes in Equity for the year ended 31 December 2010

Consolidated

31 December 2010

amounts in thousands of dollars	Issued capital	Other capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2010	**1,334,000**	**86,944**	**981,711**	**(61,070)**	**14,654**	**2,356,239**
Total comprehensive income	**-**	**-**	**275,865**	**22,347**	**2,746**	**300,958**
General reserve for credit losses	**-**	**(2,186)**	**2,186**	**-**	**-**	**-**
Share-based payment plan	**-**	**968**	**-**	**-**	**-**	**968**
As at 31 December 2010	**1,334,000**	**85,726**	**1,259,762**	**(38,723)**	**17,400**	**2,658,165**

31 December 2009

amounts in thousands of dollars	Issued capital	Other capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2009	1,334,000	2,495	801,496	(188,836)	(10,830)	1,938,325
Total comprehensive income	-	-	263,704	127,766	25,484	416,954
General reserve for credit losses	-	83,489	(83,489)	-	-	-
Share-based payment plan	-	960	-	-	-	960
As at 31 December 2009	1,334,000	86,944	981,711	(61,070)	14,654	2,356,239

Bank

31 December 2010

amounts in thousands of dollars	Issued capital	Other capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2010	**1,334,000**	**86,944**	**981,711**	**(61,070)**	**14,654**	**2,356,239**
Total comprehensive income	**-**	**-**	**275,865**	**22,347**	**2,746**	**300,958**
General reserve for credit losses	**-**	**(2,186)**	**2,186**	**-**	**-**	**-**
Share-based payment plan	**-**	**968**	**-**	**-**	**-**	**968**
As at 31 December 2010	**1,334,000**	**85,726**	**1,259,762**	**(38,723)**	**17,400**	**2,658,165**

31 December 2009

amounts in thousands of dollars	Issued capital	Other capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Total equity
As at 1 January 2009	1,334,000	2,495	801,397	(188,836)	(10,830)	1,938,226
Total comprehensive income	-	-	263,803	127,766	25,484	417,053
General reserve for credit losses	-	83,489	(83,489)	-	-	-
Share-based payment plan	-	960	-	-	-	960
As at 31 December 2009	1,334,000	86,944	981,711	(61,070)	14,654	2,356,239

Cash Flow Statement for the year ended 31 December 2010

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2010**	2009	**2010**	2009
Cash flows from operating activities					
Operating profit before tax		**389,090**	374,862	**389,090**	374,862
Adjustments for:					
depreciation and amortisation expenses		**18,858**	16,955	**18,858**	16,955
loan loss provisions		**29,173**	76,274	**29,173**	76,274
other		**36,816**	143,616	**36,816**	143,616
Taxes paid		**(180,692)**	(61,759)	**(180,692)**	(61,759)
Changes in:					
loans and advances		**(1,171,522)**	(309,688)	**(1,171,522)**	(309,688)
derivatives		**246,405**	736,979	**246,405**	736,979
receivables and other assets		**(150,279)**	28,856	**(150,279)**	28,856
creditors and other liabilities		**49,247**	19,146	**49,247**	19,146
deposits		**2,062,044**	2,421,603	**2,062,044**	2,421,603
Net cash flows from operating activities		**1,329,140**	3,446,844	**1,329,140**	3,446,844
Cash flows from investing activities					
Changes in:					
available for sale financial assets		**(294,469)**	(244,621)	**(294,469)**	(244,621)
property, plant and equipment		**(7,049)**	(18,506)	**(7,049)**	(18,506)
Net cash flows from investing activities		**(301,518)**	(263,127)	**(301,518)**	(263,127)
Cash flows from financing activities					
Changes in:					
deposits payable to other financial institutions		**(2,672,644)**	(6,508,785)	**(2,672,644)**	(6,508,785)
debt issues		**1,026,425**	3,267,704	**1,026,425**	3,267,704
Net cash flows from financing activities		**(1,646,219)**	(3,241,081)	**(1,646,219)**	(3,241,081)
Net cash flows		**(618,597)**	(57,364)	**(618,597)**	(57,364)
Cash and cash equivalents at beginning of year		**661,479**	718,843	**661,479**	718,843
Cash and cash equivalents at end of year	10	**42,882**	661,479	**42,882**	661,479

Interest income recognised for the year included $2.745 billion in cash received (2009: $2.636 billion) for the Bank and the Group. Interest expense recognised for the year included $2.246 billion in cash paid (2009: $1.958 billion) for the Bank and the Group.

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 2010 is comprised of the Bank and its controlled entities, IDS Trust 2008-1 and IDOL Trust Series 2010-1 ("the Group") and was authorised for issue in accordance with a resolution of the Directors on 25 February 2011.

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 2010 and is relevant to the Group:

- AASB 2009-5 *'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'*. As part of the Annual Improvements Project, this standard makes amendments to several other accounting standards. The only applicable amendment for the Group is the amendment to AASB 107 *'Statement of Cash Flows'*, which amends the classification requirements of certain expenditures.

There have been no changes to accounting policy as a result of the implementation of the new standard.

The following standards and interpretations became effective in 2010 and have no impact on the Group's financial statements:

- AASB 2009-8 *'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'*;
- AASB 2009-9 *'Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters'*;
- AASB 2009-10 *'Amendments to Australian Accounting Standards – Classification of Rights Issues'*.

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 2010, but have not been applied in preparing this financial report:

- AASB 124 *'Related Party Disclosures (December 2009)'*. The revised AASB 124 simplifies the definition of a related party, clarifying its intended meanings and eliminating inconsistencies from the definition;
- AASB 2009-12 *'Amendments to Australian Accounting Standards'*. Amendments made to AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052. This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations;
- AASB 2010-4 *'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'* [AASB 1, 7, 101, 134 and Interpretation 13]. Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.

The impact for the Group of the above revised standards and interpretations have not yet been determined.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and the newly formed IDOL Trust Series 2010-1 ("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 11 am call deposits. 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.

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 plus transaction costs. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 yield 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.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2010.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	2010	2009
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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. In 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.

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. Accordingly, deferred tax assets that relate to prior year tax and capital losses have not been recognised in the accounts.

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 by the reporting 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the other eligible members are ING Real Estate Investment Management Australia Pty Limited, ING REDA Holdings Pty Limited, Jaring Pty Limited and ING Investment Management 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, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 on the following page.

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 four years.

Income recognition

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

4. PROFIT FROM ORDINARY ACTIVITIES

	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Operating profit before tax has been determined as follows:				
Interest income				
Cash and cash equivalents	**4,272**	14,869	**4,272**	14,869
Available for sale financial assets	**325,721**	315,220	**325,721**	315,220
Loans and advances				
- Related parties	**16,996**	13,333	**16,996**	13,333
- Mortgage loans	**2,606,549**	2,212,553	**2,606,340**	2,212,361
(Loss)/gain on non-trading derivatives[1]	**(56,249)**	49,950	**(56,249)**	49,950
Total interest income	**2,897,289**	2,605,925	**2,897,080**	2,605,733
Interest expense				
Deposits - other persons or corporations	**1,063,848**	815,106	**1,063,848**	815,106
Deposits payable to other financial institutions				
- Related bodies corporate	**84,788**	31,761	**84,788**	31,761
- Other persons or corporations	**348,504**	505,386	**348,504**	505,386
Debt issues				
- Related bodies corporate	**68,393**	57,106	**68,393**	57,106
- Other persons or corporations	**704,801**	449,448	**704,801**	449,448
Loss on non-trading derivatives[1]	**12,619**	108,358	**12,619**	108,358
Other interest expense[2]	**4,695**	5,262	**4,695**	5,262
Total interest expense	**2,287,648**	1,972,427	**2,287,648**	1,972,427
Net interest income	**609,641**	633,498	**609,432**	633,306
Non-interest income				
Account fees	**9,364**	11,449	**9,364**	11,449
Management and service fees	**303**	157	**303**	157
Discharge fees and penalties	**11,806**	24,839	**11,806**	24,839
Loss from sale of available for sale financial assets	**(634)**	(14,040)	**(634)**	(14,040)
Loss from repurchase of debt securities	**(60)**	(1,920)	**(60)**	(1,920)
Cash flow hedge ineffectiveness	**(774)**	1,773	**(774)**	1,773
Fees and commissions[2]	**(3,365)**	(2,098)	**(3,365)**	(2,098)
Other	**34**	(4,355)	**34**	(4,355)
Net non-interest income	**16,674**	15,805	**16,674**	15,805
Total operating income	**626,315**	649,303	**626,106**	649,111

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

[2] In the current year we have revised our presentation and reclassified other interest expense and fees and commissions previously disclosed under "other expenses" to "interest expense" and "net non-interest income" respectively. To improve presentation we have revised comparative periods.

4. PROFIT FROM ORDINARY ACTIVITIES (CONTINUED)

	Consolidated		Bank	
amounts in thousands of dollars	2010	2009	2010	2009
Operating expenses				
Employment expenses				
Wages and salaries	**92,909**	83,855	**92,909**	83,855
Superannuation	**7,215**	7,023	**7,215**	7,023
Share-based payment plan	**968**	960	**968**	960
Workers compensation	**221**	436	**221**	436
Other employee costs	**3,423**	6,568	**3,423**	6,568
Advertising expenses	**37,981**	39,093	**37,981**	39,093
Depreciation and amortisation expenses				
Computer hardware	**6,229**	7,078	**6,229**	7,078
Computer software	**10,477**	5,711	**10,477**	5,711
Leasehold improvements	**2,134**	4,135	**2,134**	4,135
Motor vehicles	**18**	31	**18**	31
Occupancy expenses	**13,378**	11,952	**13,378**	11,952
Technology expenses	**11,922**	9,312	**11,922**	9,312
Other expenses				
Professional services	**4,980**	3,523	**4,980**	3,523
Stationery and printing	**563**	472	**563**	472
Management costs				
- Parent company	**5,506**	9,617	**5,506**	9,617
- Related entities	**453**	51	**453**	51
Telephone and communication	**4,340**	4,215	**4,340**	4,215
Other[2]	**5,335**	4,135	**5,126**	3,943
Total operating expenses	**208,052**	198,167	**207,843**	197,975
Loan loss provisions				
Collective provisions	**3,158**	12,552	**3,158**	12,552
Specific provisions	**26,015**	63,722	**26,015**	63,722
Total loan loss provisions *	**29,173**	76,274	**29,173**	76,274

* For the year ended 31 December 2010 the Group recognised $29.2 million (2009: $76.3 million) in loan loss provision expense. The loan loss expense for the year is primarily attributable to $15.7 million (2009: $41.2 million) in individual specific provisions for impaired facilities within the commercial loans portfolio and $8.9 million of write-offs (2009: $20.3 million) in the residential mortgage portfolio. The remaining amount is a combination of specific and collective provisions for the retail portfolio.

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 2010	Interest	Average rate for 2010	Average balance for 2009	Interest	Average rate for 2009
Interest income						
Cash and cash equivalents	**98,253**	**4,272**	**4.35%**	453,558	14,869	3.28%
Available for sale financial assets	**6,578,646**	**325,112**	**4.94%**	8,148,238	302,058	3.71%
Loans and advances	**40,179,511**	**2,567,905**	**6.39%**	39,008,737	2,265,928	5.81%
	46,856,410	**2,897,289**	**6.18%**	47,610,533	2,582,855	5.42%
Interest expense						
Deposits	**21,255,272**	**1,065,984**	**5.02%**	20,113,434	816,781	4.06%
Deposits payable to financial institutions	**7,442,995**	**434,273**	**5.83%**	14,168,854	674,477	4.76%
Debt issues	**15,292,336**	**787,391**	**5.15%**	11,647,242	458,099	3.93%
	43,990,603	**2,287,648**	**5.20%**	45,929,530	1,949,357	4.24%
Net average balance and related interest	**2,865,807**	**609,641**		1,681,003	633,498	

Bank amounts in thousands of dollars	Average balance for 2010	Interest	Average rate for 2010	Average balance for 2009	Interest	Average rate for 2009
Interest income						
Cash and cash equivalents	**98,253**	**4,272**	**4.35%**	453,558	14,869	3.28%
Available for sale financial assets	**6,578,646**	**325,112**	**4.94%**	8,148,238	302,058	3.71%
Loans and advances	**40,179,511**	**2,567,905**	**6.39%**	39,008,737	2,265,736	5.81%
	46,856,410	**2,897,289**	**6.18%**	47,610,533	2,582,663	5.42%
Interest expense						
Deposits	**21,255,272**	**1,065,984**	**5.02%**	20,113,434	816,781	4.06%
Deposits payable to financial institutions	**7,442,995**	**434,273**	**5.83%**	14,168,854	674,477	4.76%
Debt issues	**15,292,336**	**787,391**	**5.15%**	11,647,242	458,099	3.93%
	43,990,603	**2,287,648**	**5.20%**	45,929,530	1,949,357	4.24%
Net average balance and related interest	**2,865,807**	**609,641**		1,681,003	633,306	

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

6. INCOME TAX EXPENSE

	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Income Statement				
Current income tax	**135,359**	145,712	**135,359**	145,712
Deferred income tax	**(22,134)**	(34,554)	**(22,134)**	(34,653)
Income tax expense reported in Income Statement	**113,225**	111,158	**113,225**	111,059
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	**(12,722)**	(51,220)	**(12,722)**	(51,220)
Revaluation of available for sale financial assets	**(1,177)**	(10,922)	**(1,177)**	(10,922)
Income tax expense reported in Statement of Comprehensive Income	**(13,899)**	(62,142)	**(13,899)**	(62,142)
Reconciliation of prima facie income tax expense on accounting profit before income tax expense:				
Operating profit before tax	**389,090**	374,862	**389,090**	374,862
Prima facie income tax on operating profit at 30% (2009: 30%)	**116,727**	112,459	**116,727**	112,459
Over provision in prior years	**(3,226)**	(316)	**(3,226)**	(415)
Effects of amounts which are not assessable	**(276)**	(985)	**(276)**	(985)
Income tax expense reported in Income Statement	**113,225**	111,158	**113,225**	111,059

6. INCOME TAX EXPENSE (CONTINUED)

	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
amounts in thousands of dollars	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Amortisation of discount securities	**-**	4,028	**(4,029)**	(7,491)	**-**	4,028	**(4,029)**	(7,491)
Deferred lending expenses	**21,629**	26,214	**(4,585)**	(6,350)	**21,629**	26,214	**(4,585)**	(6,350)
Revaluation of financial instruments	**1,821**	-	**1,821**	-	**1,821**	-	**1,821**	-
Revaluation of available for sale financial assets	**7,457**	6,280	**-**	-	**7,457**	6,280	**-**	-
Revaluation of available for sale financial assets – fair value hedge	**-**	-	**-**	(948)	**-**	-	**-**	(948)
Revaluation of fair value hedge	**4,283**	20,352	**(16,069)**	(36,662)	**4,283**	20,352	**(16,069)**	(36,662)
Leveraged leases	**-**	1,948	**(1,948)**	(108)	**-**	1,948	**(1,948)**	(108)
Other	**2,782**	6,174	**(3,392)**	129	**2,782**	6,174	**(3,392)**	129
Total deferred tax liabilities	**37,972**	64,997			**37,972**	64,997		
Set off of tax[1]	**(37,972)**	(64,997)			**(37,972)**	(64,997)		
Net deferred tax liabilities	**-**	-			**-**	-		
Deferred tax assets								
Depreciation and amortisation expenses	**2,833**	3,213	**380**	(744)	**2,833**	3,213	**380**	(744)
Provisions for impairment	**27,919**	24,229	**(3,690)**	(16,814)	**27,919**	24,229	**(3,690)**	(16,814)
Deferred lending income	**7,393**	10,943	**3,550**	3,098	**7,393**	10,943	**3,550**	3,098
Revaluation of financial instruments	**-**	7,416	**7,416**	50,637	**-**	7,416	**7,416**	50,637
Revaluation of available for sale financial assets – fair value hedge	**6,109**	12,898	**6,789**	(12,898)	**6,109**	12,898	**6,789**	(12,898)
Revaluation of cash flow hedge	**17,070**	29,559	**(232)**	532	**17,070**	29,559	**(232)**	532
Accrued expenses	**17,133**	10,771	**(6,362)**	(4,949)	**17,133**	10,771	**(6,362)**	(4,949)
Provisions	**2,823**	2,579	**(244)**	(349)	**2,823**	2,579	**(244)**	(349)
Other	**4,870**	3,331	**(1,539)**	(1,637)	**4,870**	3,331	**(1,539)**	(1,736)
Total deferred tax assets before set off	**86,150**	104,939			**86,150**	104,939		
Set off of tax[1]	**(37,972)**	(64,997)			**(37,972)**	(64,997)		
Net deferred tax assets	**48,178**	39,942			**48,178**	39,942		
Deferred income tax charge			**(22,134)**	(34,554)			**(22,134)**	(34,653)

[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:

a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and

b) 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.

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	2010 - No	2010 - WAEP	2009 - No	2009 - WAEP
Outstanding at the beginning of the year	**429,630**	**€13.50**	238,317	€24.30
Granted during the year	**160,682**	**€7.35**	212,494	€1.92
Lapsed during the year	**(89,113)**	**€11.51**	(36,987)	€15.80
Exercised during the year	**-**	**-**	-	-
Transferred during the year	**1,234**	**€7.38**	15,806	€11.75
Outstanding at the end of the year	**502,433**	**€11.87**	429,630	€13.50
Exercisable at the end of the year	**204,578**	**€22.14**	211,392	€21.48

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	2010 - No	2010 – WAGP	2009 - No	2009 - WAGP
Outstanding at the beginning of the year	**102,066**	**€11.48**	40,340	€24.89
Granted during the year	**63,036**	**€9.56**	66,382	€7.08
Lapsed during the year	**(24,365)**	**€9.58**	(6,919)	€20.70
Vested during the year	**(10,152)**	**€32.13**	(6,790)	€32.77
Transferred during the year	**449**	**€6.90**	9,053	€6.96
Outstanding at the end of the year	**131,034**	**€9.29**	102,066	€11.48

7. SHARE-BASED PAYMENT PLAN (CONTINUED)

The outstanding balances of share options as at 31 December 2010 are:

Year of Grant	Number of Options	Exercise Price
2003	11,724	€9.71
2004	13,183	€14.37
2005	35,342	€17.88
2006	32,723	€25.16
2007	41,465	€23.05
2008	111,049	€16.66
2009	121,943	€2.90
2010	135,004	€7.35
Total	502,433	€11.87

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 2010 are:

Year of Grant	Number of Performance Units	WAGP
2008	26,364	€21.02
2009	51,706	€3.06
2010	52,964	€9.56
Total	131,034	€9.29

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. 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 1.7 years.

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

Specified Executives:

Lisa Dominique Claes	Executive Director Mortgages
John Philip Moore	Executive Director Commercial Property Finance
Brett Alexander Morgan	Executive Director Customer Delivery (previously Executive Director Savings)
Mark Frederick Mullington	Chief Financial Officer
Patricia Anne Myers	Chief Operating Officer
Sharyn Lyn Schultz	Executive Director Human Resource Management (resigned 21 September 2010)
Victor Charles Joseph Wolff	Executive Director Marketing and Communications (resigned 30 September 2010)

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Specified Directors:

Donald Joseph Koch	Chief Executive Officer
Irene Yun Lien Lee	Director (Non-Executive)
Phillip Robert Shirriff	Director (Non-Executive)
Hugh Douglas Harley	Director (Non-Executive) (resigned 26 February 2010)
Simonis Maria Hubertus Tellings	Director (Non-Executive) (resigned 1 October 2010)
Michael Katz	Director (Non-Executive) (appointed 1 January 2010)
John Masters	Director (Non-Executive) (appointed 1 January 2010)
Vaughn Nigel Richtor	Director (Non-Executive) (appointed 5 February 2010)
Brunon Cezary Bartkiewicz	Director (Non-Executive) (appointed 1 October 2010)

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

amounts in thousands of dollars	**2010**	2009
Short-term employee benefits	**4,212**	5,283
Post-employment benefits	**-**	-
Other long-term benefits	**482**	398
Termination benefits	**-**	-
Share-based payments	**536**	567
Total compensation	**5,230**	6,248

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	**2010**	2009	**2010**	2009
Amounts paid or due and payable for audit and review of the financial report by Ernst & Young	**655**	512	**655**	512
Amounts paid or due and payable for other services to Ernst & Young:				
Accounting and reporting services	**286**	171	**286**	171
Regulatory services	**526**	198	**526**	198
Taxation services	**272**	229	**272**	229
Total	**1,739**	1,110	**1,739**	1,110

10. CASH AND CASH EQUIVALENTS

	Consolidated		**Bank**	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Cash and liquid assets	**32,803**	11,480	**32,803**	11,480
Cash equivalents due from other financial institutions	**10,079**	649,999	**10,079**	649,999
Total cash and cash equivalents	**42,882**	661,479	**42,882**	661,479

11. AVAILABLE FOR SALE FINANCIAL ASSETS

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Corporate bonds	**659,440**	471,621	**659,440**	471,621
Discount securities	**2,740,748**	2,355,258	**2,740,748**	2,355,258
Government bonds	**2,239,272**	2,502,074	**2,239,272**	2,502,074
Mortgage backed securities	**369,052**	494,322	**369,052**	494,322
Floating rate notes	**1,407,654**	1,297,875	**1,407,654**	1,297,875
Other securities	**1,338**	1,885	**1,338**	1,885
Total available for sale financial assets	**7,417,504**	7,123,035	**7,417,504**	7,123,035
Maturity analysis of available for sale financial assets				
Not longer than 3 months	**2,103,813**	2,252,501	**2,103,813**	2,252,501
Longer than 3 months and not longer than 1 year	**1,752,847**	1,314,226	**1,752,847**	1,314,226
Longer than 1 year and not longer than 5 years	**3,559,506**	3,554,424	**3,559,506**	3,554,424
No maturity specified	**1,338**	1,884	**1,338**	1,884
Total available for sale financial assets	**7,417,504**	7,123,035	**7,417,504**	7,123,035

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.

12. LOANS AND ADVANCES

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Retail loans	**36,706,150**	35,636,712	**36,706,150**	35,636,712
Commercial loans	**3,264,348**	3,549,235	**3,264,348**	3,549,235
Other loans – parent entity	**550,000**	150,000	**550,000**	150,000
– other financial institutions	**22,800**	52,700	**22,800**	52,700
Gross loans and advances	**40,543,298**	39,388,647	**40,543,298**	39,388,647
Specific provision for impairment	**(62,788)**	(53,609)	**(62,788)**	(53,609)
	40,480,510	39,335,038	**40,480,510**	39,335,038
Collective provision for impairment	**(30,276)**	(27,153)	**(30,276)**	(27,153)
Total loans and advances	**40,450,234**	39,307,885	**40,450,234**	39,307,885
Maturity analysis of loans and advances				
Not longer than 3 months	**529,334**	166,408	**529,334**	166,408
Longer than 3 months and not longer than 1 year	**407,019**	440,875	**407,019**	440,875
Longer than 1 year and not longer than 5 years	**1,978,162**	2,406,864	**1,978,162**	2,406,864
Longer than 5 years	**35,573,167**	34,238,157	**35,573,167**	34,238,157
No maturity specified	**2,055,616**	2,136,343	**2,055,616**	2,136,343
Gross loans and advances	**40,543,298**	39,388,647	**40,543,298**	39,388,647

While retail loans and advances principally have a contractual term of 30 years, the average life of a retail loan is approximately 5 years (2009: 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 only derivative designated as "other derivative" is a cross-currency swap hedging a foreign currency denominated floating rate note issued.

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 and cross currency 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 or foreign exchange volatility.

For the year ended 31 December 2010, there has been no material gain or loss associated with ineffective portions of fair value hedges. As at 31 December 2010, the fair value of outstanding derivatives designated as fair value hedges was $25.1 million (2009: $1.9 million) of assets and $49.5 million (2009: $32.8 million) of liabilities.

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 2010, 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 2010, the net fair value of outstanding derivatives designated as cash flow hedges was $56.9 million net liabilities (2009: $98.5 million net liabilities).

13. DERIVATIVES (CONTINUED)

Consolidated	2010			2009		
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	**25,750,923**	**49,661**	**(130,936)**	21,040,139	58,648	(188,085)
Other derivative	**1,307,431**	**-**	**(367,813)**	1,603,668	-	(73,246)
Total derivative assets/(liabilities)	**27,058,354**	**49,661**	**(498,749)**	22,643,807	58,648	(261,331)
Derivatives designated as fair value hedges						
Interest rate swaps	**8,083,019**	**25,100**	**(49,476)**	6,976,719	8,042	(32,778)
Cross currency swaps	**-**	**-**	**-**	1,042,384	(6,170)	-
Total fair value hedges	**8,083,019**	**25,100**	**(49,476)**	8,019,103	1,872	(32,778)
Derivatives designated as cash flow hedges						
Interest rate swaps	**17,667,904**	**24,561**	**(81,460)**	13,021,036	56,776	(155,307)
Total cash flow hedges	**17,667,904**	**24,561**	**(81,460)**	13,021,036	56,776	(155,307)
Other derivative						
Cross currency swap	**1,307,431**	**-**	**(367,813)**	1,603,668	-	(73,246)
Total other derivative	**1,307,431**	**-**	**(367,813)**	1,603,668	-	(73,246)
Total recognised derivative assets/(liabilities)	**27,058,354**	**49,661**	**(498,749)**	22,643,807	58,648	(261,331)

13. DERIVATIVES (CONTINUED)

Bank	2010			2009		
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	**25,750,923**	**49,661**	**(130,936)**	21,040,139	58,648	(188,085)
Other derivative	**1,307,431**	**-**	**(367,813)**	1,603,668	-	(73,246)
Total derivative assets/ (liabilities)	**27,058,354**	**49,661**	**(498,749)**	22,643,807	58,648	(261,331)
Derivatives designated as fair value hedges						
Interest rate swaps	**8,083,019**	**25,100**	**(49,476)**	6,976,719	8,042	(32,778)
Cross currency swaps	**-**	**-**	**-**	1,042,384	(6,170)	-
Total fair value hedges	**8,083,019**	**25,100**	**(49,476)**	8,019,103	1,872	(32,778)
Derivatives designated as cash flow hedges						
Interest rate swaps	**17,667,904**	**24,561**	**(81,460)**	13,021,036	56,776	(155,307)
Total cash flow hedges	**17,667,904**	**24,561**	**(81,460)**	13,021,036	56,776	(155,307)
Other derivative						
Cross currency swap	**1,307,431**	**-**	**(367,813)**	1,603,668	-	(73,246)
Total other derivative	**1,307,431**	**-**	**(367,813)**	1,603,668	-	(73,246)
Total recognised derivative assets/(liabilities)	**27,058,354**	**49,661**	**(498,749)**	22,643,807	58,648	(261,331)

13. DERIVATIVES (CONTINUED)

Cash flow hedges	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Fair value of hedge instruments	**(56,899)**	(98,531)	**(56,899)**	(98,531)
Amount recognised in comprehensive income during the period (net of tax)	**29,683**	128,756	**29,683**	128,756
Amount removed from comprehensive income and included in net profit during the period	**7,336**	990	**7,336**	990
Period cash flow expected to affect profit or loss:				
Not longer than 3 months	**1,162**	3,247	**1,162**	3,247
Longer than 3 months and not longer than 1 year	**147**	7,233	**147**	7,233
Longer than 1 year and not longer than 5 years	**-**	1,309	**-**	1,309
Longer than 5 years	**-**	-	**-**	-
	1,309	11,789	**1,309**	11,789

The Group enters derivative contracts to hedge pools of underlying assets or liabilities in macro cash flow hedge relationships. At 31 December 2010 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 2010, the Bank recognised \$22.3 million (2009: \$127.8 million) 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 2010 was negative \$38.7 million (2009: negative \$61.1 million) after deferred tax. The ineffectiveness on the cash flow hedge of \$0.8 million gain (2009: \$1.8 million loss) was recognised in the income statement.

Fair value hedges	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Fair value of hedge instruments	**(24,376)**	(30,907)	**(24,376)**	(30,907)
Year to date current year gains and losses on hedging instruments	**53,564**	122,205	**53,564**	122,205
Fair value of hedged items	**(2,292,761)**	(2,464,738)	**(2,292,761)**	(2,464,738)
Year to date current year gains and losses on hedged item	**(53,422)**	(122,633)	**(53,422)**	(122,633)
Hedge ineffectiveness	**142**	(428)	**142**	(428)

14. RECEIVABLES AND OTHER ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Accrued interest receivable	**304,783**	152,890	**304,783**	152,890
Sundry debtors and other assets	**8,600**	10,214	**8,600**	10,214
Total receivables and other assets	**313,383**	163,104	**313,383**	163,104

15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
amounts in thousands of dollars	**2010**	2009	**2010**	2009
Property, plant and equipment at cost	**132,340**	128,551	**132,340**	128,551
Accumulated depreciation and amortisation	**(101,045)**	(85,447)	**(101,045)**	(85,447)
Total property, plant and equipment	**31,295**	43,104	**31,295**	43,104
Mainframe computers & computer equipment				
Opening balance	**9,881**	11,324	**9,881**	11,324
Additions	**3,055**	4,958	**3,055**	4,958
Depreciation	**(5,588)**	(6,401)	**(5,588)**	(6,401)
Closing balance	**7,348**	9,881	**7,348**	9,881
Personal computers				
Opening balance	**1,949**	2,032	**1,949**	2,032
Additions	**433**	594	**433**	594
Depreciation	**(640)**	(677)	**(640)**	(677)
Closing balance	**1,742**	1,949	**1,742**	1,949
Computer software				
Opening balance	**21,717**	18,287	**21,717**	18,287
Additions	**2,348**	9,141	**2,348**	9,141
Depreciation	**(10,477)**	(5,711)	**(10,477)**	(5,711)
Closing balance	**13,588**	21,717	**13,588**	21,717
Leasehold improvements				
Opening balance	**9,361**	9,761	**9,361**	9,761
Additions	**1,279**	3,735	**1,279**	3,735
Depreciation	**(2,135)**	(4,135)	**(2,135)**	(4,135)
Closing balance	**8,505**	9,361	**8,505**	9,361
Motor vehicles				
Opening balance	**196**	149	**196**	149
Additions	**-**	110	**-**	110
Disposals	**(66)**	(32)	**(66)**	(32)
Depreciation	**(18)**	(31)	**(18)**	(31)
Closing balance	**112**	196	**112**	196

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

16. DEPOSITS

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Total deposits on demand and short term deposits	**23,283,854**	21,221,810	**23,283,854**	21,221,810
Maturity analysis of deposits				
At-call	**17,168,297**	18,966,736	**17,168,297**	18,966,736
Not longer than 3 months	**2,660,742**	1,067,287	**2,660,742**	1,067,287
Longer than 3 months and not longer than 1 year	**3,261,108**	1,156,349	**3,261,108**	1,156,349
Longer than 1 year and not longer than 5 years	**193,707**	31,438	**193,707**	31,438
Total deposits on demand and short term deposits	**23,283,854**	21,221,810	**23,283,854**	21,221,810

17. DEPOSITS PAYABLE TO OTHER FINANCIAL INSTITUTIONS

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Certificates of deposits				
Related bodies corporate	**64,516**	318,147	**64,516**	318,147
Other financial institutions	**4,741,089**	5,761,614	**4,741,089**	5,761,614
	4,805,605	6,079,761	**4,805,605**	6,079,761
Deposits				
Related bodies corporate	**878,812**	646,135	**878,812**	646,135
Other financial institutions	**712,947**	2,344,112	**712,947**	2,344,112
	1,591,759	2,990,247	**1,591,759**	2,990,247
Total deposits payable to other financial institutions	**6,397,364**	9,070,008	**6,397,364**	9,070,008
Maturity analysis of deposits payable				
At-call	**449,595**	287,652	**449,595**	287,652
Not longer than 3 months	**4,845,130**	7,121,379	**4,845,130**	7,121,379
Longer than 3 months and not longer than 1 year	**514,980**	904,224	**514,980**	904,224
Longer than 1 year and not longer than 5 years	**621,270**	791,450	**621,270**	791,450
Deposits payable to other financial institutions – face value	**6,430,975**	9,104,705	**6,430,975**	9,104,705

The variance between the total deposits payable and the total of the maturity analysis of deposits payable is the difference between the face value at maturity and the carrying value, which is amortised using the effective yield method.

18. CREDITORS AND OTHER LIABILITIES

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Accrued interest payable				
Related bodies corporate	**13,315**	10,667	**13,315**	10,667
Other persons or corporations	**264,677**	229,477	**264,677**	229,477
Total accrued interest payable	**277,992**	240,144	**277,992**	240,144
Other liabilities				
Accrued expenses	**31,444**	28,569	**31,444**	28,569
Prepaid interest	**2,772**	2,356	**2,772**	2,356
Commitment fees	**5,438**	1,901	**5,438**	1,901
Income tax payable	**64,405**	112,883	**64,405**	112,883
Other	**5,654**	1,895	**5,654**	1,895
Total other liabilities	**109,713**	147,604	**109,713**	147,604
Total creditors and other liabilities	**387,705**	387,748	**387,705**	387,748

19. DEBT ISSUES

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Short term – not longer than 1 year to maturity				
Floating rate notes	**1,284,996**	1,255,012	**1,284,996**	1,255,012
Corporate bonds	**501,240**	1,217,326	**501,240**	1,217,326
Euro floating rate notes	**1,306,817**	-	**1,306,817**	-
Total short term debt issues	**3,093,053**	2,472,338	**3,093,053**	2,472,338
Long term				
Corporate bonds	**4,673,849**	4,032,066	**4,673,849**	4,032,066
Euro floating rate notes	**-**	1,602,072	**-**	1,602,072
Floating rate notes	**5,553,065**	4,984,988	**5,553,065**	4,984,988
Mortgage backed securities	**797,922**	-	**797,922**	-
Redeemable preference shares – related bodies corporate	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Total long term debt issues	**12,024,836**	11,619,126	**12,024,836**	11,619,126
Total debt issues	**15,117,889**	14,091,464	**15,117,889**	14,091,464
Maturity analysis of debt issues				
Not longer than 3 months	**1,000,000**	530,000	**1,000,000**	530,000
Longer than 3 months and not longer than 1 year	**2,800,825**	2,510,031	**2,800,825**	2,510,031
Longer than 1 year and not longer than 5 years	**11,435,994**	11,906,349	**11,435,994**	11,906,349
Longer than 5 years	**1,144,948**	1,243,113	**1,144,948**	1,243,113
Total	**16,381,767**	16,189,493	**16,381,767**	16,189,493

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

20. PROVISIONS

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Annual leave	**4,940**	4,745	**4,940**	4,745
Long service leave	**4,471**	3,852	**4,471**	3,852
Total provisions	**9,411**	8,597	**9,411**	8,597
Provisions expected to be paid in next 12 months	**5,639**	4,824	**5,639**	4,824

21. CONTRIBUTED EQUITY

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
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	**2010**		2009	
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 ordinary voting shares	**-**	**-**	-	-
Balance at end of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000

Bank	**2010**		2009	
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 ordinary voting shares	**-**	**-**	-	-
Balance at end of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000

22. RESERVES

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Available for sale reserve				
Opening balance	**14,654**	(10,830)	**14,654**	(10,830)
Revaluation movement for the year, net of tax	**3,190**	15,656	**3,190**	15,656
Transfer to net profit	**(444)**	9,828	**(444)**	9,828
Total available for sale reserve	**17,400**	14,654	**17,400**	14,654

Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the Income Statement. Fair values of quoted investments in active markets are based on current bid prices.

	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Cash flow hedge reserve				
Opening balance	**(61,070)**	(188,836)	**(61,070)**	(188,836)
Revaluation movement for the year, net of tax	**29,683**	128,756	**29,683**	128,756
Transfer to interest income	**(10,480)**	(1,414)	**(10,480)**	(1,414)
Tax on amount transferred to Income Statement	**3,144**	424	**3,144**	424
Total cash flow hedge reserve	**(38,723)**	(61,070)	**(38,723)**	(61,070)

For a derivative designated as hedging a cash flow exposure arising from a recognised asset or liability, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity in the cash flow hedge reserve and reclassified into the Income Statement when the hedge item is brought to account. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Income Statement.

	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
General reserve				
Share-based payments				
Opening balance	**3,455**	2,495	**3,455**	2,495
Movement for the year, net of tax	**968**	960	**968**	960
Total share-based payments reserve	**4,423**	3,455	**4,423**	3,455
General reserve for credit losses				
Opening balance	**83,489**	-	**83,489**	-
Transfer (to)/from retained earnings	**(2,186)**	83,489	**(2,186)**	83,489
Total general reserve for credit losses	**81,303**	83,489	**81,303**	83,489
Total general reserve	**85,726**	86,944	**85,726**	86,944
Total reserves	**64,403**	40,528	**64,403**	40,528

23. RETAINED PROFITS

amounts in thousands of dollars	Consolidated 2010	Consolidated 2009	Bank 2010	Bank 2009
Retained profits				
Opening balance	**981,711**	801,496	**981,711**	801,397
Profit for the year	**275,865**	263,704	**275,865**	263,803
Transfer from/(to) general reserve	**2,186**	(83,489)	**2,186**	(83,489)
Closing balance	**1,259,762**	981,711	**1,259,762**	981,711

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 for 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 maturity 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 receivable 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.

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 2010	Fair value 2010	Carrying value 2009	Fair value 2009
Recognised Financial Assets				
Cash and cash equivalents	42,882	42,882	661,479	661,479
Available for sale financial assets	7,417,504	7,417,504	7,123,035	7,123,035
Loans and advances	40,450,234	40,556,875	39,307,885	39,519,972
Derivative assets	49,661	49,661	58,648	58,648
Accrued interest receivable	304,783	304,783	152,890	152,890
Recognised Financial Liabilities				
Deposits	23,283,854	23,307,719	21,221,810	21,230,998
Deposits payable to other financial institutions	6,397,364	6,408,366	9,070,008	9,077,803
Derivative liabilities	498,749	498,749	261,331	261,331
Debt issues	15,117,889	15,155,983	14,091,464	14,065,432
Accrued interest payable	287,158	287,158	249,144	249,144

Bank

amounts in thousands of dollars	Carrying value 2010	Fair value 2010	Carrying value 2009	Fair value 2009
Recognised Financial Assets				
Cash and cash equivalents	42,882	42,882	661,479	661,479
Available for sale financial assets	7,417,504	7,417,504	7,123,035	7,123,035
Loans and advances	40,450,234	40,556,875	39,307,885	39,519,972
Derivative assets	49,661	49,661	58,648	58,648
Accrued interest receivable	304,783	304,783	152,890	152,890
Recognised Financial Liabilities				
Deposits	23,283,854	23,307,719	21,221,810	21,230,998
Deposits payable to other financial institutions	6,397,364	6,408,366	9,070,008	9,077,803
Derivative liabilities	498,749	498,749	261,331	261,331
Debt issues	15,117,889	15,155,983	14,091,464	14,065,432
Accrued interest payable	287,158	287,158	249,144	249,144

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 2010

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial instruments – assets				
Derivative assets				
Interest rate swaps	-	49,661	-	49,661
Cross currency swaps	-	-	-	-
Total derivative assets	-	49,661	-	49,661
Available for sale financial assets				
Debt securities issued by Banks	-	4,759,946	-	4,759,946
Debt securities issued by Governments	-	2,287,168	-	2,287,168
Mortgage backed securities	-	-	369,052	369,052
Other securities	1,338	-	-	1,338
Total available for sale financial assets	1,338	7,047,114	369,052	7,417,504
Total financial instruments – assets	1,338	7,096,775	369,052	7,467,165
Financial instruments – liabilities				
Derivative liabilities				
Interest rate swaps	-	(130,936)	-	(130,936)
Cross currency swaps	-	(367,813)	-	(367,813)
Total derivative liabilities	-	(498,749)	-	(498,749)
Total financial instruments – liabilities	-	(498,749)	-	(498,749)

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated - 31 December 2009

amounts in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial Instruments – assets				
Derivative assets				
Interest rate swaps	-	64,818	-	64,818
Cross currency swaps	-	(6,170)	-	(6,170)
Total derivative assets	-	58,648	-	58,648
Available for sale financial assets				
Debt securities issued by Banks	-	3,943,999	-	3,943,999
Debt securities issued by Governments	-	2,682,830	-	2,682,830
Mortgage backed securities	-	-	494,322	494,322
Other securities	1,884	-	-	1,884
Total available for sale financial assets	1,884	6,626,829	494,322	7,123,035
Total financial instruments – assets	1,884	6,685,477	494,322	7,181,683
Financial Instruments – liabilities				
Derivative liabilities				
Interest rate swaps	-	(188,085)	-	(188,085)
Cross currency swaps	-	(73,246)	-	(73,246)
Total derivative liabilities	-	(261,331)	-	(261,331)
Total financial instruments – liabilities	-	(261,331)	-	(261,331)

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 2010

amounts in thousands of dollars

At 1 Jan 2010	Gain recognised in Income Statement	Gain recognised in equity	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 Dec 2010
494,322	310	9,653	-	-	(135,233)	-	**369,052**

Year ended 31 December 2009

amounts in thousands of dollars

At 1 Jan 2009	Loss recognised in Income Statement	Gain recognised in equity	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 Dec 2009
721,691	(13,415)	22,451	333,287	(333,226)	(236,466)	-	**494,322**

25. SEGMENT REPORTING

The Group has three operating segments being *Mortgages*, *Savings* and *Commercial Loans*. The segments have been identified based on internal reports that are reviewed and used by the Executive Committee in assessing performance and in determining the allocation of resources.

Each division is headed 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 divisions 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 2010

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Total
Operating income	**444,448**	**105,623**	**76,244**	**626,315**
Loan loss provisioning	**(13,460)**	**-**	**(15,713)**	**(29,173)**
Allocated expenses	**(92,657)**	**(108,330)**	**(7,065)**	**(208,052)**
Net segment earnings	**338,331**	**(2,707)**	**53,466**	**389,090**
Loans and advances	**37,086,998**	**150,000**	**3,213,236**	**40,450,234**
Deposits	**-**	**23,283,854**	**-**	**23,283,854**

Year ended 31 December 2009

amounts in thousands of dollars	Mortgages	Savings	Commercial Loans	Total
Operating income	407,197	166,667	75,439	649,303
Loan loss provisioning	(35,385)	-	(40,889)	(76,274)
Allocated expenses	(92,384)	(98,407)	(7,376)	(198,167)
Net segment earnings	279,428	68,260	27,174	374,862
Loans and advances	35,652,490	150,000	3,505,395	39,307,885
Deposits	-	21,221,810	-	21,221,810

Consolidated

amounts in thousands of dollars	2010	2009
Net segment earnings	**389,090**	374,862
Income tax expense	**(113,225)**	(111,158)
Profit for the year	**275,865**	263,704

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.

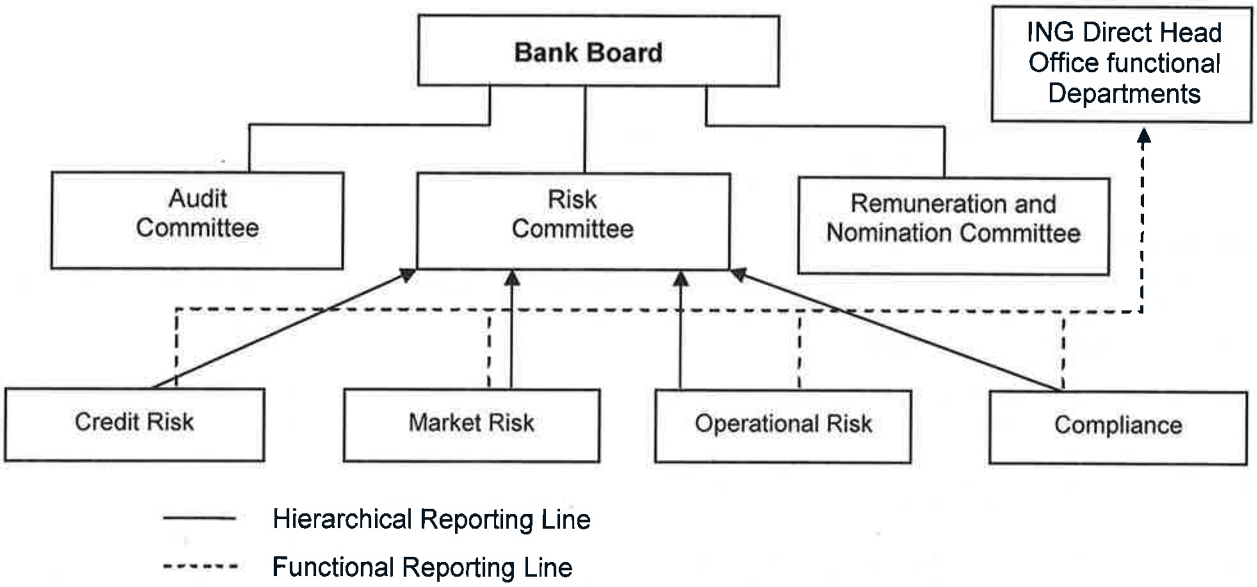
The Internal Audit function provides independent and objective assurance on the effectiveness of the overall system of internal control, including financial, operational, compliance and risk management and forms the third line of defence.

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
- Operational 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 policy framework and 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 meets on a monthly basis.
- Operational Risk Committee ("ORC") – The overall responsibility of the ORC is to identify, measure and monitor the operational and compliance risks of each unit of the Group and to ensure that appropriate action is taken to control and mitigate the level of operational risk. The ORC facilitates the accountability of operational risk management practices to managers within the business and meets on a monthly basis.

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 banking) followed by investment in short and long term wholesale loans and securities. Loans to individuals are mainly mortgage loans secured by residential property. Wholesale loans and securities are unsecured. 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

		Weighted Total Group	
S&P Equivalent Rating	Risk Grading	2010	2009
AAA	1	**3.0**	3.3
AA	2-4	**11.1**	11.1
A	5-7	**13.8**	13.7
BBB	8-10	**37.6**	38.2
BB	11-13	**28.0**	27.2
B	14-17	**3.7**	4.1
Problem Grade	18-20	**2.8**	2.4
		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 7 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 implemented 'Credit Support Annex' agreements with a number of wholesale counterparties commencing in 2009 and continuing into 2010. 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. In practice, the first 5-7 days after an obligation becomes past due is considered to constitute operational risk. After this period, 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 2010 is 55 basis points of outstanding, which has increased since 2009 in a rising interest rate environment. It remains below external benchmark indices.

26. RISK MANAGEMENT (CONTINUED)

Loans by credit quality

Consolidated amounts in thousands of dollars	2010 $ 000	%	2009 $ 000	%
Neither past due nor impaired	**37,362,884**	**93.6**	36,980,571	94.6
Past due but not impaired	**2,134,729**	**5.4**	1,765,792	4.5
Impaired	**408,191**	**1.0**	351,321	0.9
	39,905,804	**100.0**	39,097,684	100.0

Ageing analysis (past due but not impaired)

Consolidated amounts in thousands of dollars	2010 $ 000	%	2009 $ 000	%
Less than 1 payment past due	**1,591,487**	**74.6**	1,301,012	73.7
1 payment past due	**365,271**	**17.1**	301,929	17.1
2 payments past due	**177,971**	**8.3**	162,851	9.2
	2,134,729	**100.0**	1,765,792	100.0

Impaired loans by economic sector

Consolidated amounts in thousands of dollars	2010 $ 000	%	2009 $ 000	%
Private individuals	**201,148**	**49.3**	169,058	48.1
Construction & commercial real estate	**207,043**	**50.7**	182,263	51.9
	408,191	**100.0**	351,321	100.0

Risk concentration: Group portfolio, by economic sector

Consolidated in percentages	2010	2009
Construction & commercial real estate	**6.9**	6.1
Financial institutions	**11.4**	9.8
Private individuals	**76.9**	77.0
Public administration	**4.8**	7.1
	100.0	100.0

26. RISK MANAGEMENT (CONTINUED)

Provision for impairment

amounts in thousands of dollars	Consolidated 2010	2009
Specific provisions		
Opening balance	**53,609**	10,115
Net movement in provision	**26,050**	63,722
Sub-total	**79,659**	73,837
Bad debts written off	**(16,871)**	(20,228)
Closing balance – specific provisions	**62,788**	53,609
Collective provisions		
Opening balance	**27,153**	14,601
Net movement in provision	**3,123**	12,552
Closing balance – collective provisions	**30,276**	27,153
Total provision for impairment	**93,064**	80,762

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 estimated fair value of collateral on impaired loans was $437 million as at 31 December 2010 (2009: $493 million).

Maximum credit risk exposure

amounts in thousands of dollars	Consolidated 2010	2009
Financial assets		
Cash and cash equivalents	**42,882**	661,479
Accrued interest receivable	**304,783**	152,890
Available for sale financial assets	**7,417,504**	7,123,035
Loans and advances	**40,450,234**	39,307,885
Derivative assets	**49,661**	58,648
Total	**48,265,064**	47,303,937
Off-Balance Sheet		
Undrawn loan commitments and bank guarantees	**5,085,472**	4,744,150
Total maximum credit risk exposure	**53,350,536**	52,048,087

The maximum credit risk exposure for relevant items on the Balance Sheet is the Balance Sheet carrying value for the relevant financial assets. 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 in 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.
- *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 an assumed different interest rate environment.
- 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.

26. RISK MANAGEMENT (CONTINUED)

Interest rate risk analysis

amounts in thousands of dollars	2010	2009
EVS		
99th percentile portfolio economic value change plus basis and optionality risk	**(144,670)**	(154,598)
Limit +/- 200,000		
EaR		
+ 200bp immediate increase	**(13%)**	(10%)
Limit +/- 30% 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 2010.

The major assumptions that relate to the EaR measures for 31 December 2010 are:

- 200bp parallel rate shock change in net interest income over the next 12 months;
- The change in interest rate applied to the savings accounts for the immediate increase scenario is in line with the change in market rates.

Other key assumptions used to measure EVS and 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.

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 monitors 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 savings accounts. Although individuals may withdraw their funds at any time, in aggregate they form a stable source of long term 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;
- 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 2010, approximately 47% of the Group's funding was provided by retail sources (2009: 45%) and 53% was provided by wholesale sources (2009: 55%).

At the end of 2010 the Basel Committee on Banking Supervision ("BCBS") released a new rules text on liquidity risk management ("Basel III"). As described in previous consultative papers by the BCBS on liquidity, banks will be required to hold a buffer of liquid assets. As already required in the current internal policy requirements the Group has maintained a buffer of marketable liquid assets throughout the year. The level of liquid assets was $7.5 billion at 31 December 2010.

Additionally to liquid assets the BCBS rules also focus on banks obtaining a prudent amount of long-term ("stable") funding. The Group has incorporated that view in its liquidity framework in 2010 with the introduction of the Core Funding Ratio ("CFR"). The CFR is the ratio of available stable funding over required stable funding. At the end of 2010 it stands at 134% 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, physical security 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 ORC.

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, information and security 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 four main activities and processes:

Risk management process	Examples of risk management tools
Risk identification	Risk and control self assessments Risk awareness programs Fraud detection
Risk measurement	Incident reporting and analysis Risk adjusted return on capital Quality of control scorecards
Risk monitoring	ORC Audit findings action tracking Key risk indicator reporting Operational risk dashboard
Risk mitigation	New product approval process Information security plans & implementation Crisis management & business continuity planning

The Group is promoting effective management of operational risk by demonstrating that the appropriate steps have been taken to control operational risk. The Group applies scorecards for this purpose. The purpose of the annual scorecard is to measure the quality of ORM processes within a business. Scoring is based on the ability to demonstrate that the required risk management processes (risk governance, identification, measurement, monitoring and mitigation) are in place within the Group. The scorecard indicates the level of control within the Group. The scoring results in a decrease or increase of required risk capital, depending on both the maturity of implemented ORM and the control measures taken.

26. RISK MANAGEMENT (CONTINUED)

The scorecard consists of seven modules that supplement each other:

Risk management process	Focus
Risk governance	Clear allocation of responsibilities
Risk identification	Early identification of key risks and mitigation strategies embedded
Objective setting	Department and staff objectives are aimed towards effective risk management
Risk assessment	Aiming for an acceptable (controlled) level of risks and achieving a minimum level of unidentified risks
Risk response	Management responsiveness on critical, high and medium risks
Control activities	Activities undertaken to ensure control environment is robust
Information and communication	Monitoring of compliance triggers Risk cost transparency and risk awareness

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

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 on Banking Supervision ("The Basel Committee"). 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.

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. Tier Two capital primarily consists of redeemable preference shares and the general reserve for credit losses which incorporates the collective provision for impairment losses.

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 to the Group's asset range from 0% to 100%. APRA applies an additional capital charge for operational risk 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.

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:

- 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.

27. CAPITAL MANAGEMENT (CONTINUED)

To support these business activities and market effects, the Group actively manages its capital. The main focus of this 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.

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.

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 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 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 maintains a history of market interest rates and the implied volatilities in order to monitor when rates have the potential for larger moves.
- 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

The Group holds an amount of surplus capital over internal policy requirements to ensure that neither the capital adequacy limit nor the market risk capital trigger are breached in the event of unanticipated movements in market interest rates.

The required amount of surplus capital contemplates the impact of potential changes in market interest rates on the economic value sensitivity and resulting embedded gain or loss position. Additionally, the amount of surplus capital must be sufficient to accommodate a suitable period of time before additional capital can be delivered.

27. CAPITAL MANAGEMENT (CONTINUED)

Key Capital Indicators

	Consolidated	
amounts in thousands of dollars	2010	2009
Qualifying capital		
Tier 1		
Total equity	**2,658,165**	2,356,239
Adjust for: Available for sale reserve	**(17,400)**	(14,654)
Cash flow hedge reserve	**38,723**	61,070
General reserve for credit losses	**(81,303)**	(83,489)
Total adjustments	**(59,980)**	(37,073)
Deductions	**(114,087)**	(111,496)
Total tier 1 qualifying capital	**2,484,098**	2,207,670
Tier 2		
General reserve for credit losses and collective provisioning	**102,496**	102,496
Redeemable preference shares	**1,000,000**	1,000,000
Total tier 2 qualifying capital	**1,102,496**	1,102,496
Total qualifying capital	**3,586,594**	3,310,166
Total risk adjusted assets and off-Balance Sheet exposures	**25,105,802**	25,368,118
Risk Weighted Capital Ratio	**14.3%**	13.0%

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	2010	2009
Aggregate amounts receivable from the ultimate controlling entity	**151,624**	151,609
Aggregate amounts receivable from related parties in the wholly owned group	**274**	-
Total	**151,898**	151,609

29. RELATED PARTY DISCLOSURES (CONTINUED)

Loans from entities in the wholly owned group

Aggregate amounts payable comprise subordinated debt, redeemable preference shares, 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	2010	2009
Aggregate amounts payable to the ultimate controlling entity	1,008,927	1,008,016
Aggregate amounts payable to related parties in the wholly owned group	948,892	737,671
Total	1,957,819	1,745,687

Other transactions with entities in the wholly owned group

Aggregate amounts receivable or payable comprise accrued interest and currency revaluation on the cross currency swap. Interest 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	2010	2009
Amounts (payable to)/receivable from related parties in the wholly owned group	(375,614)	76,121

The Group paid fees for expenses incurred for services rendered on behalf of the Group.

	Bank	
amounts in thousands of dollars	2010	2009
Amounts paid or payable to the ultimate controlling entity	5,506	9,617
Amounts paid or payable to related bodies	453	51
Total	5,959	9,668

Transactions with the controlled entities IDS Trust 2008-1 and IDOL Trust Series 2010-1

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	2010	2009
Aggregate amounts receivable from the controlled entities	2,126	1,913

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.

29. RELATED PARTY DISCLOSURES (CONTINUED)

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.

30. CONTINGENT ASSETS AND LIABILITIES

Bank

amounts in thousands of dollars	2010	2010	2009	2009
	Unused	**Available**	Unused	Available
Standby facilities to related entities	**298,575**	**298,575**	286,875	286,875

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

- IDS Trust 2008-1: $286.9 million (2009: $286.9 million);
- IDOL Trust series 2010-1: $11.7 million (2009: nil).

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

31. COMMITMENTS

Irrevocable commitments to extend credit 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.

	Consolidated	
amounts in thousands of dollars	2010	2009
Commitments to extend credit		
- Irrevocable commitments to extend credit	**5,054,462**	4,714,175
- bank accepted guarantees	**31,010**	29,975
Total commitments to extend credit	**5,085,472**	4,744,150
Operating Leases – Land & Buildings *		
Lease payments due:		
- not later than 1 year	**9,741**	8,433
- later than 1 year and less than 5 years	**36,519**	37,607
- later than 5 years	**13,769**	23,995
Total minimum lease payments	**60,029**	70,035

*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 2010 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 2010 and of its performance for the year ended on that date; and

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

b) 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

Phillip R Shirriff
Chairman

Donald J Koch
Director

Sydney
25 February 2011

CONFORMITY STATEMENT

The Executive Board is required to prepare the Annual Accounts and the Annual Report of ING Bank (Australia) Limited for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht)

The Executive Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Executive Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of their knowledge:

- the ING Bank (Australia) Limited 2010 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank (Australia) Limited and the entities included in the consolidation taken as a whole;

- the ING Bank (Australia) Limited 2010 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2010 of ING Bank (Australia) Limited and the entities included in the consolidation taken as a whole, together with a description of the principal risks ING Bank (Australia) Limited is being confronted with.

Signed in accordance with a resolution of the Directors.

Phillip R Shirriff
Chairman

Donald J Koch
Director and Chief Executive Officer

Sydney
25 February 2011

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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 2010, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

ERNST & YOUNG

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 2010 and of their performance for the year ended on that date; and

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

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

Ernst & Young

Ernst & Young

Steve Ferguson
Partner
Sydney
25 February 2011